



## STATE OF WASHINGTON

John Spellman, Governor

### THE DESIRABILITY OF CONTINUING RETAIL LIQUOR SALES BY STATE GOVERNMENT

Office of Financial Management  
Joe Taller, Director  
Program Development Division  
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**PLAINTIFF'S  
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## TABLE OF CONTENTS

<u>Contents</u>	<u>Page</u>
I. Executive Summary . . . . .	1-3
II. Introduction. . . . .	4-5
III. Historical Background of Washington's Liquor Laws . . . . .	6-12
IV. The State Liquor Control System . . . . .	13-64
General Description of System . . . . .	13-15
Board Structure and Functions . . . . .	16-18
State Liquor Indicators . . . . .	19-25
Employment . . . . .	19
Productivity . . . . .	19
Liquor Consumption . . . . .	19
Share of Market. . . . .	19
Adult Per Capita Consumption . . . . .	19-25
Liquor Outlets . . . . .	25
State Liquor Revenues . . . . .	26-58
Liquor Sales Taxes . . . . .	26-31
Liquor Profits . . . . .	32-43
Other Sources of Revenue . . . . .	44-47
Total Liquor Revenues and Their Distribution . . . . .	48-58
Liquor Control Policy Considerations. . . . .	59-64
The Board's Administration of the Statutes . . . . .	59-60
Potential Liquor Control Policy Problems . . . . .	60-64
• High Liquor Prices . . . . .	61
• Wine and Beer Pricing. . . . .	61-63
• Unequal Distribution of Liquor Revenues. . . . .	63-64
• Challenge to the State's Role in Retail Liquor Sales . . . . .	64
V. Financial Comparison of the Free Enterprise System with the Present State Liquor Control System . . . . .	65-84
Approach. . . . .	65-66
Projections of Liquor Profits and Taxes Under the Present Liquor Control System. . . . .	67-72
Financial Comparison of Present System to the Free Enterprise System Alternative . . . . .	73-77
Fiscal Impact of the Free Enterprise System Alternative . . . . .	78-80
Potential for Increased Liquor Consumption. . . . .	81-84

LCB-01000002

## TABLE OF CONTENTS (continued)

<u>Contents</u>	<u>Page</u>
VI. Other Considerations. . . . .	85-93
Public Health, Safety, and Crime. . . . .	85-86
Adverse Health Effects of Alcohol Use . . . . .	87-88
Public Safety Risks . . . . .	89-90
Severe or Prevalent Risks . . . . .	90
Social Costs of Drinking Liquor . . . . .	90-91
Potential for Increased Crime and Criminal Infiltration . . . . .	92-93
VII. Findings and Recommendations. . . . .	94-96
Summary . . . . .	94
Findings. . . . .	94-95
Recommendations . . . . .	96

### APPENDICES

Appendix A - Washington State Initiative and Referendum Liquor Control Measures, 1914-1981 . . . . .	97-99
Appendix B - Washington State - Alcohol Beverage Consumption and Sales Projections, FY 1980 - 1989. . .	100-105
Appendix C - Washington State Ten Year Projections of Liquor Revenues and Taxes, FY 1980 - 1989. . . . .	106-117
Appendix D - Washington State Ten Year Estimate of Potential Liquor Related Revenues Generated by the Free Enterprise System, FY 1981 - 1989. . . . .	118-132
Appendix E - Washington State Summary of Comparative Differences in Liquor Related Revenues - Control vs. Free Enterprise System, FY 1981 - 1989 . .	133-145
Appendix F - Source Documents . . . . .	146
Appendix G - Major Concerns of the Beer and Wine Industry . . . . .	147-150
Appendix H - Legislative Budget Committee - Special Report - Fiscal Impact to Washington State if Washington State Liquor Control Board was Prohibited from Selling Strong Beer and Wine (Final Draft) . . . . .	151-165



## LIST OF TABLES

<u>Tables</u>	<u>Page</u>
1. State Liquor Control Board - Comparative Staffing Levels, FY 1973 - FY 1981 . . . . .	20
2. State Liquor Control Board - Comparative Outlet Levels, FY 1971 - FY 1980 . . . . .	20
3. State Liquor Control Board - Comparative Liquor Sales in Gallons and Market Share FY 1971 - FY 1980 . . . . .	21
4. State Liquor Control Board - Comparative Productivity FY 1973 - FY 1981 . . . . .	22
5. State of Washington - Comparative Total Liquor Sales in Gallons (Public and Private Market Share), FY 1971 - FY 1980. . . . .	22
6. State of Washington - Comparative Apparent Adult Liquor Consumption, FY 1971 - FY 1980. . . . .	24
7. State Liquor Control Board - Comparative Number of Outlets Per Adult Population, FY 1971 - FY 1980. . . . .	24
8. State Liquor Control Board - Liquor Income by Source, FY 1980 . . . . .	27
9. State Liquor Control Board - Comparative Liquor Sales Taxes Collected, FY 1971 - FY 1980 . . . . .	27
10. 1979 Statewide Food Sales - Share of Market for Seven Largest Retail Food Chains . . . . .	30
11. State Liquor Control Board - Ten Year Comparative Profit and Loss Statement, FY 1971 - FY 1980 . . . . .	31
12. State Liquor Control Board - Net Sales Adjusted for Inflation, FY 1971 - FY 1980 . . . . .	32
13. State Liquor Control Board - Ten Year Growth Comparison - Population, Gallons Sold, Net Sales, and Prices, FY 1971 - FY 1980 . . . . .	33
14. State Liquor Control Board - Ten Year Comparative Liquor Price Growth, FY 1971 - FY 1980 . . . . .	34
15. Board Markup and Sales Taxes (Pricing Policy) . . . . .	36
16. Price Breakdown on a Bottle of Spirits, July 1981 . . . . .	36

LCB-01000004

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# L I S T O F T A B L E S (continued)

<u>Tables</u>	<u>Page</u>
17. Markup Price Comparison - Public vs. Private. . . . .	37
18. State Liquor Control Board - Cost of Goods Sold Adjusted for Inflation, FY 1971 - FY 1980 . . . .	39
19. State Liquor Control Board - Cost of Goods Sold, Expenses, and Profits as a Percent of Net Sales, FY 1971 - FY 1980. . . . .	40
20. State Liquor Control Board - Direct Merchandising Expenses Adjusted for Inflation, FY 1971 - FY 1980 . .	42
21. State Liquor Control Board - Merchandising Profits Adjusted for Inflation, FY 1971 - FY 1980. . . . .	43
22. State Liquor Control Board Comparative Excise Taxes and License Fees Collected, FY 1971 - FY 1980. . . . .	46
23. State Liquor Control Board - Excess Revenue from Licensing and Enforcement Activities Adjusted for Inflation, FY 1971 - FY 1980. . . . .	47
24. State Liquor Control Board - Ten Year Summary of Liquor Taxes and Profits, FY 1971 - FY 1980 . . . .	49
25. State Liquor Control Board - Ten Year Summary of Profit Distribution to State and Local Governments, FY 1971 - FY 1980 . . . . .	51
26. State Liquor control Board - Ten Year Summary of Liquor Sales Tax Distribution to State and Local Governments, FY 1971 - FY 1980 . . . . .	52
27. State Liquor Control Board - Ten Year Summary of Total Liquor Revenue Distribution to State and Local Governments, FY 1971 - FY 1980 . . . . .	53
28. State Liquor Control Board - Distribution of Liquor Revenues Adjusted for Inflation, FY 1971 - FY 1980 . .	54
29. State Liquor Control Board - Ten Year Summary of Liquor Sales Taxes by Type, FY 1971 - FY 1980. . . . .	55
30. State of Washington - Ten Year Comparative Summary of State General Fund Total Receipts vs. Total Revenues Received from Liquor Sales, FY 1971 - FY 1980. . . . .	57
31. Washington State Liquor Control Board - Projections of Liquor Sales by Type of Beverage, FY 1981 - FY 1989. . . . .	68

LCB-01000005

L I S T   O F   T A B L E S (continued)

<u>Tables</u>	<u>Page</u>
32. Washington State Projections of Apparent Liquor Consumption by Type, FY 1981 - FY 1989 . . . . .	69
33. Washington State Liquor Control Board - Projections of Liquor Taxes and Profits, FY 1981 - FY 1989 . . . . .	71
34. Washington State Liquor Control Board - Summary Comparison of Present Control vs. Free Enterprise System, Potential Revenues - Total, FY 1981 - FY 1989 . . . . .	72
35. Washington State Liquor Control Board - Summary Comparison of Present Control vs. Free Enterprise System Potential Revenues - State and Local Governments, FY 1981 - FY 1989 . . . . .	74
36. Washington State Liquor Control - Increased Per Capita Consumption Necessary to Make-up Revenue Difference - Control vs. Free Enterprise System, FY 1981 - FY 1989 . . . . .	76
37. Washington State Liquor Control - Average Price of a Bottle of Spirits, Present System vs. Free Enterprise System, July 1981 . . . . .	77
38. Washington State Liquor Control - Conversion from Present Control System to Free Enterprise System - Summary of Fiscal Impact on State and Local Governments, FY 1985 - FY 1989 . . . . .	80
39. Apparent Adult Per Capita Consumption of Spirits - 1979 Ranking of Twelve Western States . . . . .	83
40. Apparent Adult Per Capita Consumption of Spirits - 1979 Ranking of 50 States and District of Columbia. . . . .	84
41. Reported Deaths Due to Selected Alcohol Related Causes - 1978 Ranking of 12 Western States . . . . .	86

## L I S T   O F   C H A R T S

<u>Charts</u>	<u>Page</u>
Figure 1 - Liquor Control System - State of Washington . . . . .	14
Figure 2 - Washington State Liquor Control Board - Organization Structure. . . . .	17
Figure 3 - State Liquor Consumption - Comparative Apparent Adult Liquor Consumption, FY 1971 - FY 1980 . . . . .	23
Figure 4 - Washington State Liquor Control Board - Comparative Summary. Liquor Sales Taxes Collected, FY 1971 - FY 1980. . . . .	28
Figure 5 - Washington State Liquor Control Board - Ten Year Comparative Summary of Cost of Goods Sold, Expenses, and Profits as a Percent of Net Sales, FY 1971 - FY 1980 . . . . .	41
Figure 6 - Washington State Liquor Control Board - Ten Year Summary of Liquor Sales Taxes by Type and Distribution, FY 1971 - FY 1980. . . . .	56
Figure 7 - Washington State Liquor Control - Conversion from Present System to a Free Enterprise System, June 30, 1985 - Conversion Sequence Schedule. . . . .	79
Figure 8 - Washington State Liquor Control - Comparison of Apparent Per Capita Consumption of Spirits Necessary to Match Projected Revenues, FY 1985 - FY 1989 . . . . .	82



## 1. EXECUTIVE SUMMARY

This report was prepared at the request of the Governor's Office for the purpose of determining the desirability of continuing retail liquor sales by Washington State government.

While the report contains extensive analysis regarding the fiscal implications of this issue, additional research will be necessary to determine, as precisely as possible, the health and safety risks of alcohol consumption and their relationship to state regulatory activity.

A survey of existing research at the national level indicates that, under an open market approach, liquor consumption would increase due to its increased availability to the consumer. Since the risks of alcoholic beverage consumption would also be expected to increase, more information is required to determine the full costs of introducing a public policy that could potentially stimulate liquor consumption.

### Liquor Policy

The Washington State Liquor Control Board was established in 1933 to administer this state's liquor laws. Strict state controls were placed on the manufacture and sale of all alcoholic beverages. Restaurants, hotels, clubs, taverns, and dispensaries (retail grocery stores) were licensed to sell only light beer and wine. Only state operated liquor stores could sell spirits (hard liquor).

Since 1933, the only major change to the state's liquor control system occurred in 1948. Liquor by the drink in hotels, restaurants, and clubs was allowed as a result of voter approval of Initiative 171.

During fiscal year 1981, the State Liquor Control Board employed over 1,300 employees and operated 368 liquor stores and agencies. State operated liquor merchandising operations generated over \$328 million in gross sales in FY 1981 and distributed over \$125 million in combined profits and liquor taxes to state and local governments.

During the 1980's decade, the Board's projected sales are expected to generate over \$1.6 billion in both profits and liquor taxes.

The policy question addressed by this study is:

"What is the proper state government role in retail liquor sales?"

### Findings

The information gathered as a result of this study indicates that:

- During the past ten years, the apparent adult annual consumption of hard liquor has remained constant at three gallons per capita. This indicates that the State Liquor Control Board probably met the natural, unstimulated demand of a growing adult population

group, one of the original purposes of the state liquor control statutes.

- Observations of liquor consumption patterns and regulatory systems in other states and foreign countries indicate that the per capita consumption of hard liquor would increase under an open free enterprise liquor distribution system.
- It is anticipated that increased consumption would also increase the health and safety hazards associated with alcoholic beverage consumption.
- A financial comparison of a free enterprise liquor system with the present control system indicates there would be a loss in liquor revenues to the state if the state changed to a free enterprise system. Based on the assumptions that the state's liquor tax structure would not change and both systems would sell the same amount of liquor, the free enterprise system would generate approximately 22 percent less revenue than the existing controlled system.

Under the free enterprise system, state government revenues derived from liquor sales would decrease by approximately 12 percent. Local governments' share of liquor revenues would decrease by approximately 50 percent.

- Adult per capita consumption of hard liquor would have to increase from three to approximately four gallons per capita each year to make up the estimated revenue loss resulting from conversion to a free enterprise liquor system.
- A bottle of hard liquor would generally cost the consumer more when sold under a free enterprise approach.
- Due to the many more retail outlets resulting from the free enterprise approach, effective liquor control would be impaired. Impaired liquor control could result in increased alcohol related crime and a greater risk of liquor sales to intoxicated persons and minors.
- There are also several pricing and regulatory problems that should be addressed to improve the efficiency of the system.

Thus, under the open or free enterprise system, it can be expected that liquor consumption would likely increase, liquor revenues would decrease, and liquor prices would be higher. Health and safety risks could increase, and liquor regulation would be made more difficult.

#### Conclusions and Recommendations

As a result of this study, it can be concluded that there is no advantage to the people of this state to change the role of state government regarding liquor sales. Washington has an effective liquor control system and there seems to be little interest on the part of the general public to change the



system. Public sentiment appears to be moving in the opposite direction-- toward more restrictions on liquor sales and reduced public consumption.

Drunk driving, youth alcoholism, and the staggering national problems associated with liquor consumption are issues that are of significant concern to the general public at this time.

If it is determined that this issue should be examined in greater detail, the following additional research should be conducted:

1. The state should examine state drinking patterns and the risks of increased alcohol consumption which may result from deregulated retail sales.
2. The state should obtain expert testimony concerning alcohol related social problems and the potential for increased criminal activity.
3. The state should evaluate all other liquor control alternatives, including those which may further limit the availability of liquor, to determine the control approach with the least negative public impact.
4. The state should conduct a random sample survey to determine the prevailing public sentiment for the sale of hard liquor in grocery stores.
5. The state should also conduct an evaluation of its beer and wine pricing and regulatory practices to improve the state's liquor control system.

In summary, the retail sale of liquor in state liquor stores restrains the consumption of liquor. The existing liquor control system is effective, meets the intent of the law, and is generally accepted by the public. Any substantial modification of this system should be evaluated in a deliberative manner and be subject to a vote of the people.



## II. INTRODUCTION

### State Liquor Regulation

The Washington State Liquor Control Act, commonly known as the Steele Act, was adopted by the state legislature in 1933. Tight control of liquor distribution was immediately established through direct state ownership of liquor stores and strict regulation of privately owned establishments selling light beer and wine.

Much of the Steele Act was patterned after the British Columbia system now employed in all of the Canadian provinces. Beer and wine could be consumed in taverns, hotels, and restaurants, but hard liquor could only be purchased in state owned stores for consumption in the home or private clubs.

Hard liquor by the drink was adopted by Initiative in 1948, and no major changes to the state's liquor control system have been made since that time.

Altogether, 18 states maintain a state operated liquor monopoly while the remaining states operate open free enterprise systems. During the 50 years since the repeal of prohibition, none of the control states has dismantled their system in favor of the open system and none of the open states has converted to a state ownership system.

### Operations and Revenues of the Washington System

Liquor control activities in this state are directed by the three member Washington State Liquor Control Board. Board members are appointed by the Governor for nine years and can only be removed by a tribunal of three judges of the Superior Court.

Since its creation, it is generally felt that the Board has made a conscientious effort to enforce the provisions of the state's liquor laws. Irresponsible competitive practices have been strongly controlled, and the Board has been successful in ensuring the purity of the alcohol products sold in this state.

It has been the Board's policy to gradually increase the number of liquor outlets to meet increased demand as our population has grown. As a result of this growth, state liquor merchandising has become a multi-million dollar, profit making business.

During the 1981 fiscal year, the State Board registered over \$328 million in gross sales and returned profits of \$37.8 million. As a comparison, the Board's sales volume ranked third behind the total in-state sales of the Safeway and Albertsons supermarket chains.

In total, over \$125 million in combined liquor profits and taxes were generated from liquor sales. State government received over \$88 million while local governments received over \$34 million of the total 1981 fiscal year liquor revenues. Another \$2.2 million was distributed to the Department of Social and Health Services for alcoholism treatment and rehabilitation.

During the 10 year period between Fiscal Years 1971 and 1980, nearly \$1 billion in liquor profits and taxes were generated by state government liquor sales and distributed for governmental use.

By 1990, the state's adult population is expected to grow by another 850,000 persons. As a result of this growth, the Board's gross sales are expected to reach the \$500 million per year mark by Fiscal Year 1987.

#### Study Purpose and Approach

There has been some concern in recent years regarding the state's role in the operation of a large profit making business. Since the Board's liquor merchandising activities will grow substantially during the next decade, the policy question addressed by this study is:

"What is the proper state government role in retail liquor sales?"

It is not the purpose of this study to judge the Board's past managerial performance, or to compare the Board's performance to similar private sector merchandising operations. What must be determined is the desirability for state government to remain in the liquor merchandising business. If this is not desirable, what are the alternatives?

In order to provide a decision making perspective, this report briefly describes the background and rationale behind the present liquor control laws. A ten year (1971-1980) comparative analysis of liquor merchandising indicators is also included in this report, together with a description of the Board's ten year profit and loss statement. Potential liquor control policy problems are identified, and the distribution of liquor revenues to state and local governments is described.

Projections of future (1980-1989) liquor consumption have been developed based on past consumption patterns and future population growth. Using the consumption projections as a base, future tax revenues are estimated for the ten year period. Revenue estimates for the present liquor control system are then compared to those of an open free enterprise system so that the fiscal impacts of conversion can be determined. All financial tables and calculations are based on liquor pricing policy and taxation as of July 1, 1981. Subsequent markup changes and liquor tax increases are not included.

In addition to the fiscal impacts of free enterprise liquor merchandising, the alcohol related social risks of increased liquor sales are identified in this report. Although very little quantitative information is available at the state level, an assessment is made of the potential health and safety hazards associated with alcohol consumption which may be exacerbated by open market liquor merchandising.

Based upon the liquor related information collected and analyzed during this study, some initial conclusions are stated together with several suggested steps that could be taken by the state to gather the additional information necessary to develop a comprehensive liquor control policy for the future.

A complete discussion draft of this study report was published in July 1982. Copies were distributed to members of the state's liquor industry and the State Liquor Control Board for review and comment. All comments received have been reviewed and included in this final version of the study report when they were appropriate. The FY 1980 and FY 1981 statistical information remains as the basis for the analyses presented in this report.

### III. HISTORICAL BACKGROUND OF WASHINGTON'S LIQUOR LAWS

#### Early History

In 1933, the legislature adopted the Washington State Liquor Control Act, commonly referred to as the Steele Act. The Steele Act modeled Washington's liquor control system after the system in operation in British Columbia. The system has not been substantially changed since its creation.

A brief summary of the historical events leading to the passage of the Steele Act, and its impact since, is necessary to provide a perspective for the examination of the state's present role in retail liquor sales.

Washington's strict liquor control system did not just happen by accident. It is the result of very deliberate actions taken by the state legislature after a long and bitter struggle lasting over most of the state's history.

The following historical synopsis of the state's liquor issues was developed from a book written by Norman H. Clark entitled "The Dry Years: Prohibition and Social Change in Washington." This book, published in 1965, gives an excellent detailed account of state social, economic, and political considerations leading to the adoption and implementation of the Steele Act.

#### Saloons in the 1800's

The fight to obtain control of the flow of liquor has been one of the most turbulent in the political life of Washington. At the center of this controversy were the old time saloons and the people who operated them.

During the early days of our state, saloons were honorable institutions that satisfied a social need. Saloons offered a release from the drab, monotonous, agrarian life. They were the poor man's club and a center of charity. It is a fact that many times men from the ranches, logging camps, and mines were lodged and fed by saloon keepers during troubled times. Some saloons did contribute to crime and poverty. However, drunkenness was not a major problem and the saloon was generally accepted by a majority of the citizens.

In the 1880s, major changes began to occur with the completion of the transcontinental railroads. In 1880, there were but 289 miles of railroad track in Washington and few saloon problems. However, during the 1880's, over 2,000 miles of track were laid and their intercontinental connections completed. Almost another 1,000 miles of track were laid in the 1890's. Due to railroad expansion, Washington became more and more accessible. The state experienced enormous population growth.

Before the railroads came to Washington, the saloon was an urban institution. Brewing on a large scale was impractical beyond urban centers of population because draft beer was never pasteurized and had to be handled quickly. However, with the coming of the railroads, urban brewers began looking beyond the limitations of their beer wagons. Brewers encouraged the



cultivation of saloons along the railroad rights-of-way. Railroad refrigeration cars were put into use and the "crown" bottle cap allowed brewers to ship bottled beer in large quantities.

#### Saloon Competition of the 1890's

During the early 1890's, the brewery competition took on new dimensions. The large brewers in St. Louis and Milwaukee began establishing themselves in the Northwest. Foreign investors began buying up brewery properties. Local brewers, understanding the nature of survival, entered the competition in a frenzy.

The principal feature of the brewery business in the 1890s was the rush to open more saloons or to buy up the old ones. Brewers loaned money for licenses, fixtures, and stock while encouraging many irresponsible persons to become saloon keepers. Many brewers included hard liquor in the stock they provided. Almost all of the saloonkeepers were in debt to a brewery and had to hustle to attract customers to pay their bills. Unrestrained, the saloon competition was ruthless.

Saloons were open 24 hours a day, seven days a week. Bartenders worked in three shifts, liquor was sold to minors, men were sold more than they needed, drunks were served and then "rolled", and prostitution was a problem. If a person cashed his paycheck in a saloon, he stood very little chance of taking any money home. It was common for saloons to be hangouts for prostitutes, pimps, and criminals. The hustling for the dollar even led some saloon men to drug their customers. Thus, resentment toward saloon empire building increased as brewery competition increased.

#### Early Prohibition Laws

These conditions led to the prohibition laws of the early 1900s. In answer to a growing and militant segment of the state's population, the legislature adopted a local option prohibition law in 1909. It allowed local governments to prohibit the sale of liquor, but it did not prohibit private drinking. Individuals could carry up to one gallon of liquor or a case of beer into a dry city or county, and the manufacture of liquor or beer could take place in a dry area. Other new anti-saloon laws were soon passed by the legislature. Laws restricted women and minors from saloons and Sunday sales were limited. Wholesalers were prohibited from holding an interest in saloons, and whiskey less than four years old could not be sold.

In 47 local option elections held in 1909, fewer than a dozen communities voted to stay wet. By 1912, the Anti-Saloon League estimated that about 40 percent of the state's population lived in the dry areas. However, by that time, it became apparent that the only thing they had changed was the mode of drink. The saloons had been replaced by the bootlegger and the speak-easy. Dry islands were not practical in an ocean of liquor.

#### Initiative and Referendum Law of 1912

The demise of the local control option law became a reality in Washington State as a result of the new political power provided the public in the

initiative and referendum law of 1912. Initiative No. 3 concerning state-wide prohibition was the first state initiative measure to be voted on. It was submitted to the voters in November 1914 and was approved by a vote of 189,840 (52.5 percent) "for" to 171,208 (47.5 percent) "against."

All saloons were closed and the manufacture and sale of liquor was prohibited. However, the state was not "bone dry." The law allowed private drinking. An individual could import two quarts of hard liquor or twelve quarts of beer into the state each twenty days. The individual had to have an importer's license obtained from the county auditor. However, after three or four months of adjustment, the market for illegal liquor began to expand again. Moonshine was plentiful and many undesirable individuals began moving into the bootleg business.

#### The 18th Amendment (1919)

Anti-saloon pressure increased and on December 22, 1917, the United States Congress submitted a resolution to the states to amend the U.S. Constitution (Eighteenth Amendment) to prohibit "the manufacture, sale, or transport of intoxicating liquors." The state legislature voted for ratification in January 1919. However, prior to legislative ratification of the Eighteenth Amendments, the citizens voted for their own liquor prohibition law.

Referendum No. 10, "Bone Dry" state-wide prohibition, passed on November 5, 1918, with 96,100 votes (63.8 percent) "for" to 54,322 (36.2 percent) "against." By January 16, 1919, the required 36 states had ratified the Eighteenth Amendment to the United States Constitution allowing nationwide prohibition to go into effect in one year. However, Washington really dried up in July 1919 when Referendum No. 10 became effective.

#### The Volstead Act (1920)

The Eighteenth Amendment was given its teeth by Congress in January 1920 with adoption of the National Prohibition Act, commonly called the Volstead Act. The act defined intoxicating beverages as those containing over 0.5 percent alcohol. This provision was designed to "wipe out" the United States liquor industry. The law forbade anyone to "manufacture, sell, barter, transport, import, export, deliver, furnish, or possess any intoxicating liquor. First offenses were liable to fines as high as \$1,000 and to imprisonment for as long as six months. Congress handed all the problems of enforcement to the United States Treasury Department.

After 13 years of prohibition it became apparent that the "great experiment" would not work. The saloons had been abolished but the attempt to regulate morality outside the saloons had not worked at all. Prohibition not only did not stop liquor traffic, it increased it. The perverse assertion of the right to drink liquor developed into patterns of excessive drinking which prevailed in a large number of social groups, including many of the better educated and more responsible members of every community. Bootlegging, hijacking, and speakeasys flourished, together with other related crime. There was a general contempt for the law. Federal officials charged with enforcement were arrogant and often corrupt. Local officials both honest and dishonest looked the other way. In short, the cure had become more dangerous than the disease. By 1932, the repeal of prohibition was the big issue of the day.

### The 21st Amendment - Repeal of Prohibition (1933)

Finally, Initiative Measure No. 61 was filed in 1932. It proposed the repeal of state-wide prohibition laws. However, it was considered an anti-saloon measure in that it did not provide for licensing and operation of saloons. This initiative won by a landslide during the general election of November 1932, with 341,450 votes (62.1 percent) "for" to 208,212 (37.9 percent) "against." More people responded to the prohibition repeal measure than any other issue of the time.

In February 1933, the United States Congress approved a resolution and submitted it to the states for repeal of Federal prohibition laws by ratification of the Twenty-First Amendment to the United States Constitution.

In November 1932, a total of 698,294 Washington citizens voted for delegates to the state repeal convention. Wets were selected by more than two to one. The delegates met in October 1933 and voted to ratify the Twenty-First Amendment. The requisite number of states ratified repeal in a remarkably short time (288 days).

### State Liquor Control (1933)

Liquor control was returned to the states along with all its problems. The people wanted liquor to be available, but did not want to return to the saloon days with the inevitable social and political corruption that would follow.

The day after the state liquor laws were repealed at the polls in 1932, most counties eliminated their "dry squads." City police lost all interest in enforcement and only a small force of Federal agents remained to control liquor. No one pretended that liquor was not for sale everywhere. Roadhouses were run wide open. Bartenders served drunks and minors. Restaurants sold beer across the streets from schools. The enforcement of liquor related crime did not exist. Unregulated, liquor flowed in Washington again.

### Establishment of the Liquor Control Advisory Commission (1933)

Governor Martin wanted action immediately and appointed a seven member liquor control advisory commission. The commission liked the British Columbia system and provided the Governor with a report complete with draft legislation on November 7, 1933.

In summary, the commission's findings were:

1. Liquor control systems fall into two broad classes:
  - a. Private enterprise under state license with strong governmental supervision.
  - b. Complete state monopolistic control.



2. State control through state owned dispensaries has had the most substantial success at liquor flow control primarily due to the private profit motive being eliminated from the retailing of "hard liquor."
3. A state liquor monopoly should be established, the dominant policy of which should be control, looking toward social betterment, with revenue and profit of secondary importance.
4. Temperance is best promoted by making hard liquor available only through state owned dispensaries, but permitting widely licensed selling of mild beer and light wines.
5. The state should not share liquor control but should share liquor related income with the counties and municipalities.
6. A full time liquor control board of three members should be established. Members should have adequate salaries, reasonable tenure, and freedom from political influence.
7. The major weakness of this system could be the desire for excessive revenues.

Specifically, the commission recommended: (1) the sale of beer or wine by the glass where meals are served; (2) the sale in private retail stores of beer and wine for home consumption; (3) the sale of hard liquor in state owned stores; and, (4) the sale of hard liquor at low prices to eliminate bootlegging.

Upon receiving the report, the Governor immediately called a special session of the legislature on December 5, 1933, specifically to deal with the state liquor control issue. This was the same day that the Twenty-first Amendment to the United States Constitution became official.

#### The Steele Act (1933)

After only a month of debate, the legislators adopted the Washington State Liquor Control Act (the Steele Act), a modern anti-saloon bill. The Steele Act created: (1) a three member liquor control board appointed by the Governor for nine years, but removable only by court action; and (2) authorized state owned and operated retail stores for all liquor beverages over four percent alcohol content. Prices of liquor were to be low with profits and taxes going to the state general fund and to the cities and counties. Under the Steele Act, restaurants, clubs, and dispensaries could get licenses to sell beer and wine but the licenses were subject to local option. However, there would be no public drinking of hard liquor.

The state liquor control system was a moderate compromise between complete prohibition and unregulated repeal. The crucial purpose of the system is described by the commission's modern definition of temperance:

"The commission is approaching the problem of liquor control and has accepted as substantially sound the view that the solution of the liquor control question is not prohibition, which has proven a complete failure and it is not the open saloon, to the return of which public opinion is strongly opposed, but that true temperance is best promoted by making widely available intoxicating beverages of low alcoholic content such as beer and light wines, but limiting so far as humanly possible the promotion of the sale of intoxicants of heavy alcoholic content through making them available in government dispensaries... The sale and drinking of hard liquor in public places should be prohibited."

#### First State Liquor Stores (1934)

The first state liquor stores were open by March 31, 1934 and free enterprise liquor quickly disappeared. People were generally happy with the new state liquor laws and their administration, and they made no significant effort to modify the Steele Act until after World War II.

#### Liquor by the Drink (1948)

The laws allowed fraternal or social clubs to serve drink mixers to members who supplied their own bottles. By 1946 the board was reporting that the "bottle clubs" had become a major problem of enforcement. The policing of these clubs did not enjoy much public support. As a result, in 1948, Initiative No. 171 was drawn to allow hotels, restaurants and clubs to sell hard liquor by the drink in special "rooms." Revenues from the new Class H licenses were marked for medical research at the state universities.

The measure was approved by the voters in November 1948 with 416,227 votes (52.7 percent) "for" to 373,418 (47.3 percent) "against." This was no overwhelming margin. An analysis made it quite clear that the winning margin was contributed by the districts where war workers had flooded into the state during the war years and remained.

Regulation of these "rooms," or cocktail lounges, prohibited sales to intoxicated persons, prohibited gambling, and even prohibited a person moving a drink from one table to another. The words "saloon" or "bar" could not be used. Only the word "room" with a proper noun could be used to direct a guest to the cocktail lounge. By 1955, the State Liquor Control Board had issued less than half of the liquor by the drink licenses authorized by the initiative.

#### Little Activity Since 1948

Since 1948, the citizens of Washington have been relatively quiet on the liquor issue and seem to be content with present controls. Several attempts were made through the initiative and referendum process to allow the drinking age to be reduced to 18 or 19, and to allow hard liquor to be sold in private retail grocery stores.

In 1968, the voters approved Initiative 242 by a margin of over two to one to require a driver to take an intoxication test if arrested for driving while under the influence of alcohol. Beginning in 1972, several attempts

initiatives (refer to Appendix A) of this nature were never filed or lacked the required number of signatures. The latest effort was Initiative 406, filed in the spring of 1981, which did not obtain the signatures required.

Lowering the minimum drinking age from 21 to 18 or 19 was also a significant issue during the 1970's. In 1973, Referendum No. 36, which would reduce the minimum age to 19 failed, 495,624 (49.3 percent) "for" to 510,491 (50.7 percent) "against." Two additional attempts to lower the age by initiative in 1975 and 1978 failed to obtain the signatures needed.

There has been little general public interest in liquor issues since 1948 except by the special interests involved.

The overall history of the liquor control issue in the state of Washington can be classified into two phases. The pre-Steele Act era which can be described as turbulent and the post-Steele Act adoption era which can be described as quiet. Strongly enforced state operated liquor control is in place and there does not seem to be enough general public interest to accomplish major changes to a system that is working. Indeed, public sentiment appears to be moving in the opposite direction--toward more restrictions on liquor sales and reduced public consumption.

Drunk driving, youth alcoholism, and the staggering national health problems associated with liquor consumption are issues that are of significant concern to the general public at this time.

#### IV. THE STATE LIQUOR CONTROL SYSTEM

##### General Description of System

Since our present liquor control system was established almost 50 years ago, it is important to review its present structure and several recent liquor sales indicators. As previously stated, the only major change to the original Steele Act took place in 1948 with the legalizing of the sale of hard liquor by the drink. However, several minor rules have been liberalized to keep pace with changing times.

As stated by the Steele Act, the primary objective of Washington's liquor control laws is to maintain direct control over the manufacture and distribution of alcoholic beverages by state government in a manner that will protect the health and safety of the general public.

The authority for overall control is vested in a three man State Liquor Control Board. Each member of the Board is appointed by the Governor and confirmed by the Senate. The members serve a nine year term and can only be removed by a tribunal composed of three judges of the Superior Court.\* In this manner, the legislature established a strong, independent state agency free of political influence, with broad powers to strictly control the flow of liquor in the state.

When the Board was established in 1933, the state had a population well over one and one-half million residents anxious to put a stop to liquor abuses. Today, our population level has reached well over four million people living in a society much more permissive than 1933. Although the liquor laws are still restrictive, the Board has worked to improve service, loosened up some of the rules, and provided a broad selection of liquor products to those who want to drink. Since every step in the flow of liquor within Washington is the direct responsibility of the Board, a summary of the Board's functions will aid policy makers in the evaluation of the present system.

Figure 1 illustrates the state's overall liquor control system from policy to consumer levels, as well as the specific functions of the Board.

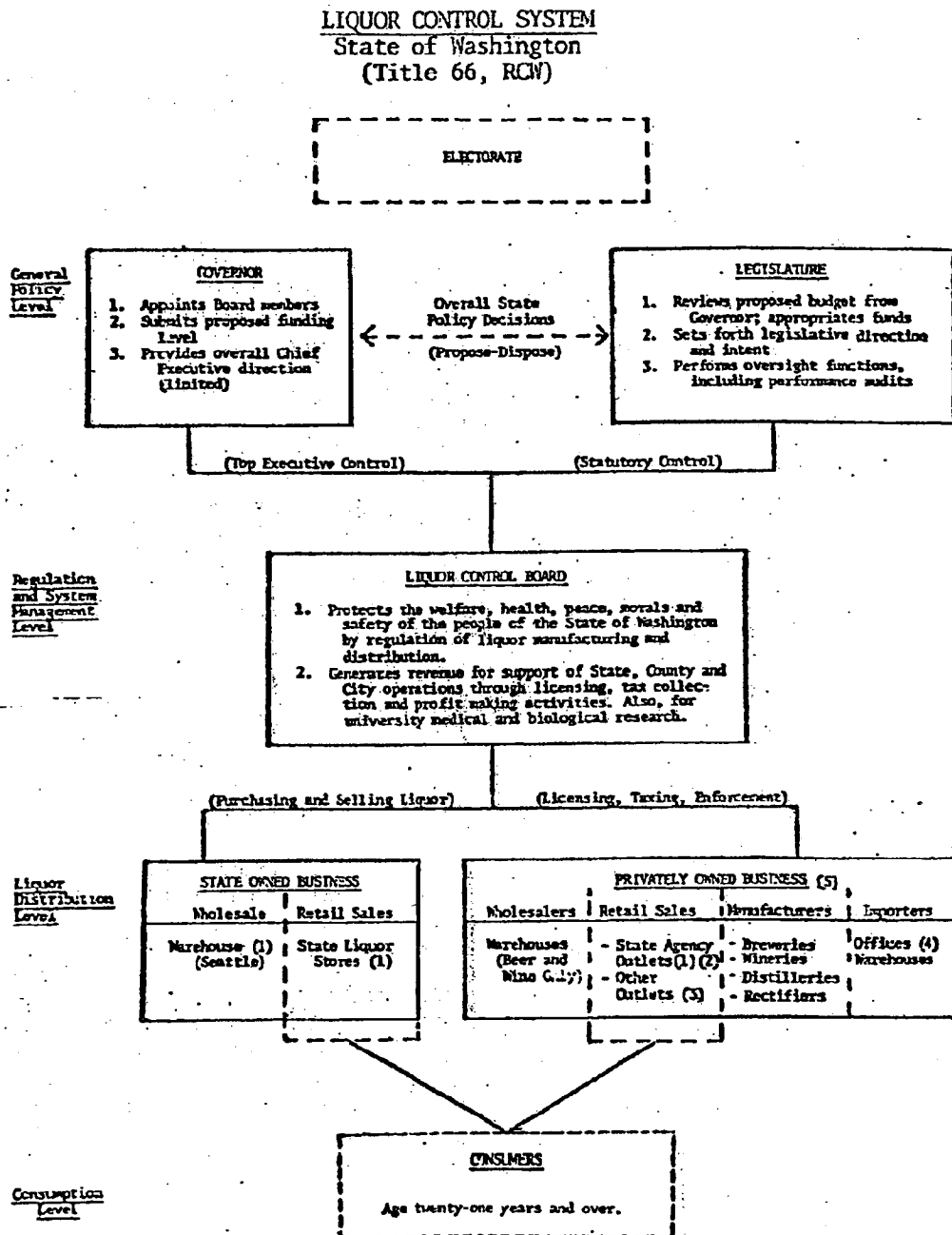
Washington was one of 18 states that chose to control liquor through a state owned and operated distribution system. Control is maintained through state owned retail outlets that sell spirituous liquor (hard liquor) in unopened packages. The Board also licenses and regulates the sale of liquor by the drink and strictly controls vendors of wine and beer sold in privately operated grocery stores. Manufacturers of liquor, such as distillers, wineries, brewers, and importers, are also licensed and regulated by the Board. This arrangement is called a three-tiered system of control where the flow of liquor is controlled at the manufacturing, wholesale, and retail levels of the distribution system.

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\*Governor Martin vetoed the original requirement that Board members could only be removed by the Supreme Court.



Figure 1



**NOTES:**

- (1) Serve as a source of liquor stocks for privately owned retail businesses. (Package goods only)
- (2) Operate as retail distribution agents for the State at locations where establishment of a State Liquor Store is not feasible. (Package goods only)
- (3) Grocery stores, taverns, restaurants, hotels, common carriers (boats, airplanes, trains), private clubs, bowling establishments, soda fountains, sport arenas, race tracks, drug stores, etc. (See Title 66 RCW for type of distribution authorized.)
- (4) Location of importers principal offices within the State is required.
- (5) Various penalties exist for unlawful distribution or sale of alcoholic beverages to the public by privately owned businesses.

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State law requires all persons licensed to sell spirituous liquor by the drink, to purchase it from the state stores or warehouse. This provision, together with the Board's licensing procedures, precludes the manufacturer or wholesaler of liquor from a financial interest in retail outlets and eliminates the irresponsible competitive practices of the pre-Steele Act days.

Again, all package sales of hard liquor for off-premises consumption are handled by the state. Legal dispensaries (state owned stores) are located and operated to meet a natural and unstimulated demand. Liquor sales cannot be promoted and no effort can be made beyond normal management practices to increase profits from liquor sales operations. Products cannot be advertised, store hours are strictly limited, Sunday sales of packaged goods are prohibited, and the price of all bottled goods is uniform throughout the state.

The state also has a local option provision that allows local governments to modify central state government controls. Local voters may choose to exclude alcoholic sales from their area or to provide tighter restrictions than provided by state laws.

In order to guard against possible conflict of interest, specific prohibitions are written into the law against representation of, or having an interest in, any phase of the liquor industry by liquor control system board members, officers, or employees.

Although the Board members act in concert on all general policy matters, each member is also made directly responsible for the operation of a specific function of the Board's responsibilities. Subject to budgetary limitations imposed by the legislature, the Board can employ the number of employees it requires to carry out its functions.

The Board's financial operations are audited by the State Auditor each year. Its management performance is audited by the Legislative Budget Committee from time to time, and an annual report including a summary of its operations is submitted to the Governor and the legislature each year.

## Board Structure and Functions

Figure 2 illustrates the organizational structure chosen by the Board for execution of the state's liquor laws. Operating divisions are clustered into groups according to three major functions: (1) administrative services, (2) regulatory services, and (3) merchandising services. Again, each major function is under the direct supervision of a single Board member.

Administrative Services. Administrative services provides general office support to the other functions including supply purchasing, contract and other legal support, word processing, forms control, records management, labor relations, personnel training, budgeting, data processing, accounting, auditing, financial reporting, and the management of the Board's automobile fleet.

Regulatory Services. Regulatory services handles the licensing and enforcement activities of the Board. The licensing of dealers in alcoholic beverages in Washington falls within two broad categories: (1) retail licensees, and (2) manufacturers, importers, and wholesalers.

The enforcement of liquor control laws is a twofold operation. On the one hand, liquor control laws are penal statutes. Violations are defined as either felonies or misdemeanors covered by the state penal code. The nature of enforcement requires the services of law officers, juries, prosecutors, criminal courts, and penal institutions.

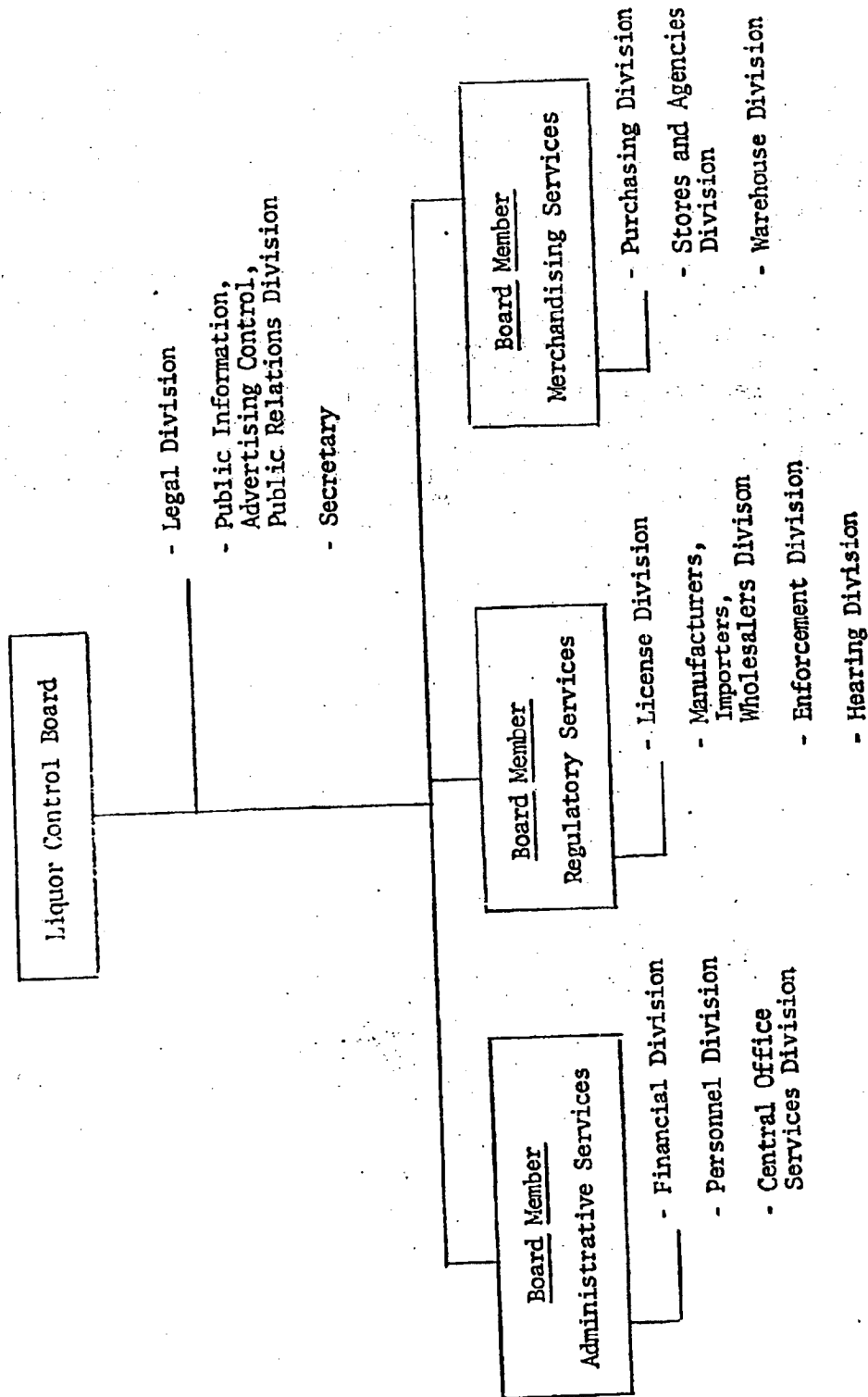
On the other hand, the enforcement is administrative in character and utilizes the services of liquor control personnel. This type of enforcement includes disciplinary actions against licensees and permit holders. All county and municipal peace officers in Washington, as well as liquor control enforcement officers employed by the Board, are charged with the duty and granted the authority to carry out investigations and can prosecute all violations under Title 66 RCW.

In addition to licensing and enforcement, regulatory services also includes the supervision and inspection of breweries, wholesalers, and winery facilities to provide control of domestic and imported beer and wine. Hearings are also conducted to provide a licensee who may have violated the liquor laws with the opportunity to present his case. Board decisions on violations and the resulting penalties are considered final.

Merchandising Services. This function includes the purchasing, warehousing and distribution of liquor, and the operation of the state owned retail outlets. All liquor stocks purchased by the Board are received and distributed from the Board's single warehouse located in Seattle.

The Board attempts to stock a supply of types and brands of alcoholic beverage for which there is a demand. Supplies are purchased at minimum prices from the distillers and distributed to the stores from the warehouse. The holders of Class "H" licenses (liquor by the drink) can purchase liquor from the state warehouse or directly from a state owned retail liquor outlet.

Figure 2  
Organization Structure



Source: LBC Report No. 78-13

At the close of FY 1980, there were 172 state owned liquor stores and 182 agencies in operation or a total of 354 outlets serving the residents throughout the state. The Board determines the localities and establishes the stores based on population growth and demand. In those cities and towns in which no state liquor store is located, the Board may appoint agents to serve as liquor vendors operating for a commission. The vendors are paid on a sliding percentage scale of sales volume. They must own or lease their own equipment and store space.

Each year the selection of items available in state stores and agencies is increased for customer convenience. There are 791 brands and sizes of spirituous liquor, 607 brands and sizes of both domestic and imported wines, and 13 brands of "strong" malt beverages (beer over 4.0 percent) for a total 1591 brands and sizes available in most state stores and agencies. At the present time, the Board estimates that over 80 percent of the state's population live within five miles of a state store or agency. This degree of selection and convenience demonstrates the Board's policy of maintaining a high level of service as conveniently as possible within the restrictions of the state liquor control statutes.

### State Liquor Indicators

**Employment.** Table 1 indicates that State Liquor Control Board employment has increased about twenty-four percent over the last nine years rising from 1065 "full-time equivalent" (FTE) employees in FY 1973 to 1320 FTEs in FY 1981. Merchandising employees make up 85 percent of the Board's total employment. Since FY 1971, there has been a slight shift in the percentage of employment by each of the three major functions of the Board from administrative and regulatory services to the retail merchandising of liquor. The number of liquor outlets has increased by 64 percent (29 percent increase in Board operated off premises outlets and 72 percent increase in Class H licenses issued for on premises consumption) during the same period, as illustrated by Table 2. The total number of gallons of liquor sold by the Board has increased by 43 percent, as illustrated by Table 3. During the same time period, the number of people employed by the administrative and regulatory services functions of the Board has increased by only 10 percent and 9 percent respectively.

**Productivity.** Table 4 indicates that total employee productivity increased about 23 percent from FY 1973 to FY 1981, or approximately 2.5 percent per year average. This level of overall productivity has been accomplished by the automation of the liquor warehouse, the introduction of self-service stores, and the efficient use of more part-time employees. This productivity increase occurred during a time period when productivity, in general, has decreased.

**Liquor Consumption.** Table 5 indicates that total apparent adult consumption of alcoholic beverages has increased from 80.7 million gallons of spirits, wine, and beer sold in FY 1971 to 119.9 million gallons in FY 1980, or approximately 48 percent increase during the ten year period. The sale of spirits has increased approximately 33 percent and remained about 7 percent of total consumption over the decade. On the other hand, wine consumption has increased by 86 percent and beer by 46 percent. While beer has remained at a rather constant range of 83 to 84 percent of total consumption, wine's share of the total has grown from 8.2 percent in FY 1971 to 10.3 percent in FY 1980.

**Share of Market.** Table 3 indicates that the State Liquor Control Board's share of total liquor sales has remained at a constant 9 percent over the ten year period between FY 1971 - FY 1980. However, the Board's share of the wine market has decreased from 21.5 percent in FY 1971 to 18.4 percent in 1980 as a direct result of increased wine sales by private retail food markets. The Board's sales of beer increased by almost 600 percent during the same period, but the sale of beer remains a very small portion of Board sales and only .004 percent of the total beer market in FY 1980.

**Per Capita Consumption.** Table 6 and Figure 3 illustrate apparent adult per capita consumption of alcoholic beverages in the state of Washington during the ten year period FY 1971 to FY 1980.

TABLE 1

State Liquor Control Board  
Comparative Staffing Levels  
FY 1973 - FY 1981  
(FTE's by Major Function)

Fiscal Year	Admin.		Regulatory		Merchandising		Total	
	FTEs*	%	FTEs	%	FTEs	%	FTEs	%
1973	74	7.0	103	9.7	887	83.3	1065.0	100.0
1974	75	6.9	102	9.3	923	83.8	1101.0	100.0
1975	82	7.2	104	9.2	958	83.6	1145.0	100.0
1976	82	7.0	103	8.8	991	84.2	1176.0	100.0
1977	79	6.7	102	8.7	994	84.6	1175.0	100.0
1978	81	6.9	103	8.7	995	84.4	1180.0	100.0
1979	84	7.0	103	8.5	1022	84.5	1209.0	100.0
1980	85	6.9	109	8.6	1067	84.5	1262.0	100.0
1981	84	6.4	113	8.6	1123	85.0	1320.0	100.0

FY

1973-1981

% Growth 13%

9%

26%

23%

1973 - 1981

\*Full-time equivalent employees

TABLE 2

State Liquor Control Board  
Comparative Outlet Levels  
FY 1971 - FY 1980

Fiscal Year	On-Premises	Off-Premises			Total Off & On
	Class "H" Licenses	Stores	Agencies	Total	
1971	1325	114	160	274	1599
1972	1391	113	162	275	1666
1973	1480	126	179	305	1785
1974	1584	129	187	316	1900
1975	1694	134	186	320	2014
1976	1802	137	187	324	2126
1977	1946	141	182	326	2272
1978	2046	153	180	335	2381
1979	2121	160	186	346	2467
1980	2279	172	182	354	2633

FY 1971-1980

% Growth

72%

50%

13%

29%

64%

Source: WSLCB



TABLE 3

State Liquor Control Board  
Liquor Sales in Gallons and Market Share  
FY 1971 - FY 1980

Fiscal Year	Spirituos Liquor		Wine		Strong Beer		Total	
	Sales in Gallons	Mkt. Share %	Sales in Gallons	Mkt. Share %	Sales in Gallons	Mkt. Share %	Sales in Gallons	Mkt. Share %
1971	6,314,186	100	1,429,607	21.5	64,055	.0009	7,807,800	9.6
1972	5,772,738	100	1,379,462	19.2	94,259	.0013	7,246,300	8.6
1973	6,114,814	100	1,406,618	24.2	125,429	.0017	7,676,861	8.8
1974	6,439,216	100	1,707,162	21.2	220,969	.0028	8,367,347	9.2
1975	6,781,986	100	1,929,211	23.3	364,715	.0044	9,075,912	9.2
1976	7,120,748	100	1,921,611	21.2	361,953	.0042	9,404,312	9.3
1977	7,369,231	100	1,786,145	18.2	307,462	.0035	9,462,838	9.1
1978	7,812,209	100	1,855,569	17.7	323,635	.0035	9,991,413	9.2
1979	8,140,749	100	2,041,981	17.8	372,997	.0038	10,555,727	9.0
1980	8,439,527	100	2,286,153	18.4	445,359	.0044	11,180,039	9.3
FY 1971-1980 % Growth		33%		59%		595%		43%

**TABLE 4**  
**State Liquor Control Board**  
**Comparative Productivity "Gallons Sold Per FTE"**  
**FY 1973 - FY 1981**

<u>Fiscal Year</u>	<u>Total FTE's*</u>	<u>Gallons Sold</u>	<u>Gallons Sold per FTE</u>
1973	1065	7,676,861	7,208
1974	1101	8,367,347	7,599
1975	1145	9,075,912	7,926
1976	1176	9,404,312	7,996
1977	1175	9,462,838	8,053
1978	1180	9,991,413	8,467
1979	1209	10,555,727	8,730
1980	1262	11,171,039	8,859
1981	1320	11,725,958	8,883
FY 1973-1981			
% Growth	24%	53%	23%

\*FTE = Full Time Equivalent Employee's

**TABLE 5**  
**State of Washington**  
**Comparative Liquor Sales in Millions of Gallons**  
**FY 1971 - FY 1980**  
**(Total of All Sales - Public and Private)**

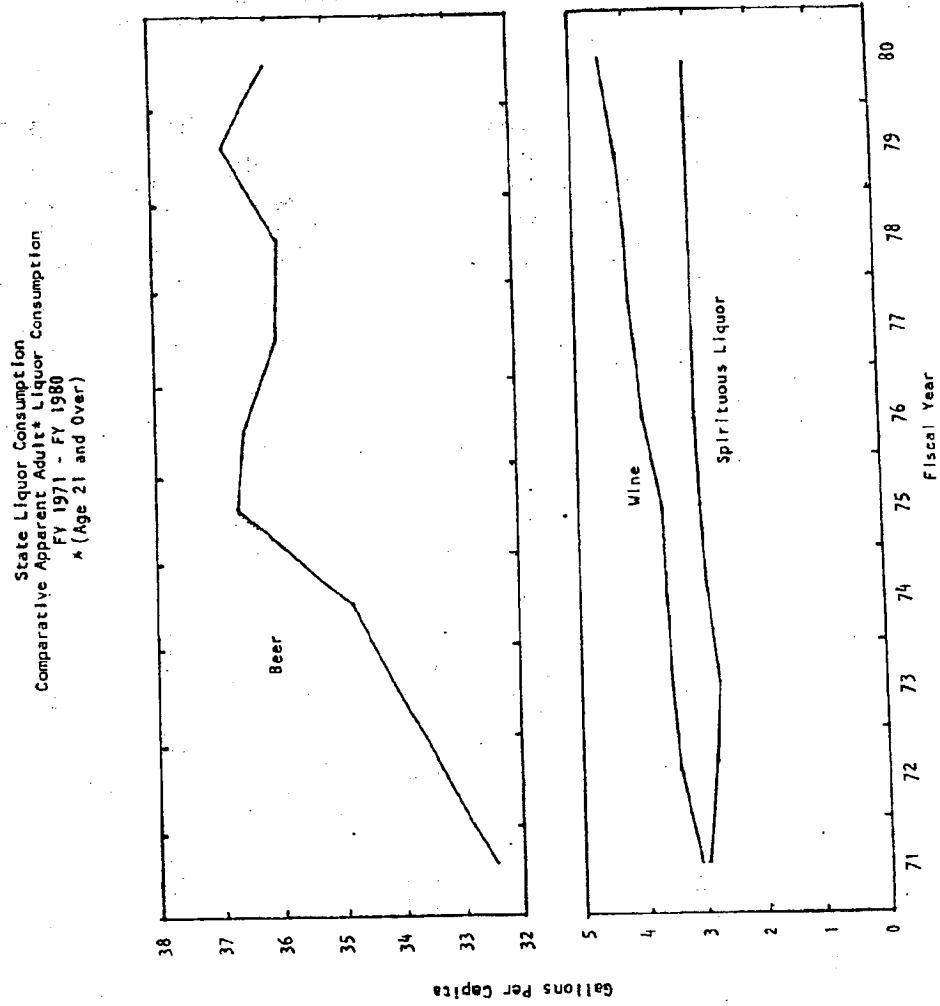
<u>Fiscal Year</u>	<u>Spirituos Liquor</u>		<u>Wine</u>		<u>Beer</u>		<u>Total</u>	
	<u>Gallons</u>	<u>%</u>	<u>Gallons</u>	<u>%</u>	<u>Gallons</u>	<u>%</u>	<u>Gallons</u>	<u>%</u>
1971	6.3	7.9	6.6	8.2	67.8	83.9	80.7	100.0
1972	5.7	7.0	7.1	8.6	70.5	84.4	83.4	100.0
1973	6.1	7.1	7.5	8.8	72.7	84.1	86.4	100.0
1974	6.4	7.2	8.0	8.8	76.3	84.0	90.8	100.0
1975	6.7	7.0	8.2	8.4	82.7	84.6	97.8	100.0
1976	7.1	7.1	9.0	8.9	84.8	84.0	101.0	100.0
1977	7.3	7.2	9.8	9.4	86.5	83.4	103.6	100.0
1978	7.8	7.3	10.4	9.6	90.0	83.1	108.3	100.0
1979	8.1	7.1	11.4	9.8	96.7	83.1	116.3	100.0
1980	8.4	7.1	12.3	10.3	99.1	82.6	119.9	100.0

FY  
1971-1980

% Growth    33%                      87%                      46%                      48%

Source: WSLCB

Figure 3



**TABLE 6**  
Washington State  
Comparative Apparent Adult Liquor Consumption - Gallons  
FY 1971 - FY 1980  
(Age 21 and Over)

Fiscal Year	Adult Population	Spirits Consumption	Per Capita	Wine Consumption	Per Capita	Beer Consumption	Per Capita
1971	2,090,069	6,314,186	3.02	6,624,184	3.17	67,843,376	32.50
1972	2,103,857	5,772,738	2.74	7,163,246	3.40	70,522,670	33.50
1973	2,136,220	6,144,814	2.88	7,590,817	3.55	72,791,495	34.00
1974	2,200,229	6,439,216	2.93	8,020,362	3.65	76,360,643	34.70
1975	2,261,096	6,781,986	3.00	8,277,696	3.66	82,781,702	36.60
1976	2,328,779	7,120,748	3.06	9,050,377	3.89	84,899,029	36.50
1977	2,405,634	7,369,231	3.06	9,801,235	4.01	86,521,203	35.90
1978	2,506,453	7,812,209	3.12	10,460,954	4.17	90,044,552	35.90
1979	2,623,179	8,140,749	3.11	11,474,874	4.37	96,724,397	36.80
1980	2,743,209	8,439,527	3.07	12,380,774	4.51	99,149,979	36.10
FY 1971-1980 % Growth	31%	34%	+2%	87%	42%	46%	11%

**TABLE 7**  
State Liquor Control Board  
Comparative Number of Outlets Per Adult Population  
FY 1971 - FY 1980

Fiscal Year	Adult Population (Millions)	Outlets		Outlets Per 1000 Adult Population	
		On Premises	Off Premises	On Premises	Off Premises
1971	2.0	1325	274	.633	.131
1972	2.1	1391	275	.661	.130
1973	2.1	1480	305	.692	.142
1974	2.2	1584	316	.720	.143
1975	2.2	1694	320	.749	.141
1976	2.3	1802	324	.774	.139
1977	2.4	1946	326	.809	.135
1978	2.5	2046	335	.816	.133
1979	2.6	2121	346	.828	.131
1980	2.7	2279	354	.830	.129
FY 1971-1980 % Growth	31%	72%	29%	31%	(-1.6%)

Source: WSLCB

Due to the fact that the sales of spirituous liquor grew at approximately the same rate as the state's adult population during the ten year period, the per capita consumption remained relatively constant at about 3 gallons per person over twenty-one years of age. This indicates that the consumption patterns of hard liquor remained unchanged throughout the decade. The sales of high priced liquor decreased slightly during the recession of the early 1970s coincidental with a major tax increase on spirits. However, consumption increased again and leveled off at about three gallons per capita consumption level.

Patterns for the consumption of wine changed during the same decade. Starting out at the same per capita consumption level as spirits in FY 1971, wine per capita consumption increased to the 4.5 gallon level in FY 1980. This is the result of substantial growth in state wine sales during the ten year period. State wine sales grew by 5,756,590 gallons or 86.8 percent between FY 1971 and FY 1980. Wine consumption patterns are definitely changing. Wine is gaining most of its share of total liquor sales from beer sales as indicated by Table 5.

Beer consumption has ranged between 32 and 36 gallons per capita during the 1970s decade with a total sales growth of 46 percent, slightly higher than spirits. However, this does not impact the Board's merchandising functions due to the Board's very small share of the market as illustrated on Table 3.

Washington's consumption of liquor can be characterized as natural for spirits and beer and stimulated for wine. Beer and particularly spirits consumption is due only to the state's growth in adult population while the consumption of wine has been stimulated by a broader selection available in the open market place and a general increase in the popularity of wines.

Liquor Outlets (Hard Liquor). Table 7 indicates that the number of off-premises outlets for spirits has also just kept pace with the increase in state adult population between FY 1971 and FY 1980. This can be considered another indicator of the Board's policy of operating within the intent of the state liquor control statutes.



### State Liquor Revenues

Washington State, within the framework of the state liquor laws, derives revenue from the sale and consumption of alcoholic beverages in several ways. Table 8 illustrates the revenue sources and amounts received during FY 1980. The table also indicates the relative importance of each revenue source. Total sales by state stores amounted to over 70 percent while state liquor sales taxes amounted to almost 23 percent. When beer and wine taxes are added to sale revenues and taxes, the amount equals 97.2 percent of the total revenues collected during FY 1980.

Liquor sales taxes are described below while the markup profits and beer and wine tax revenues are discussed in the following sections.

Liquor Sales Taxes. The basic liquor sales tax (RCW 82.08.150) is 15 percent of the sales price on all sales to the final customer of spirits and strong beer sold in their original package by the State Liquor Board.

In addition to the sales tax, an ounce or liter tax (RCW 82.08.150) is also imposed on hard liquor at the rate of approximately five cents per fluid ounce or \$1.72 per liter.

Class "H" (liquor by the drink) licensees must buy hard liquor from the Board and pay the 10 percent sales tax plus \$1.72 per liter tax, but they also receive a 15 percent discount on all purchases. This discount rate is applied to the normal cost of the liquor plus markup, but before the application of the sales and liter tax.

The sales tax was first imposed in 1943 as a special war tax which was repealed in 1949. In 1957 the 10 percent sales tax was made permanent and then increased to 15 percent in 1959. However, the additional five percent was not added to the liquor sold to Class "H" licensees.

The ounce tax was established in 1961 at a rate of 1.1 cent per ounce, then increased to two cents per fluid ounce in 1965 and increased again in 1971 to four cents. During the 1981 regular session of the legislature, the ounce tax was converted to a liter tax for compatibility with the federal liquor laws. At that time, the four cent fluid ounce tax was changed to a \$1.72 per liter tax, or the approximate equivalent of a five cent fluid ounce tax.

The imposing of both the sales tax and the liter tax on liquor has resulted in liquor tax increases over the past twenty years that have placed Washington's liquor at the highest price level in the nation. This is directly contrary to the intent of the original liquor control legislation. Lower liquor prices discourage bootlegging and the illegal manufacturing of liquor.

Several attempts to eliminate or reduce the fluid ounce tax increase of 1971 by initiative failed during the 1970s.

As indicated in Table 9 and Figure 4, the fluid ounce tax on spirits grew by 175.4 percent between FY 1971 and FY 1981 and produced over \$335 million in tax revenues during the decade. Again, the principal reason for this growth

TABLE 8

State Liquor Control Board  
Liquor Income by Source FY 1980

<u>Source</u>	<u>Amount</u>	<u>Percent</u>
Net Liquor Sales <sup>1</sup>	\$217,770,192.28	71.1%
Sales Taxes	70,050,206.20	22.8
Wine Tax	9,150,485.46	2.9
Beer Tax	4,399,594.72	1.4
Class H License Fees	1,864,982.00	.6
Other License Fees	1,691,008.22	.6
Interest Earned	1,058,304.74	.3
Carriers Class "H" Markup	117,084.01	.1
Miscellaneous Income	113,097.92	.1
Cash Discounts	42,852.14	.1
	<u>\$306,257,807.69</u>	<u>100.0%</u>

<sup>1</sup> Net of discounts and exempt taxes equal to \$14,529,858.08

Source: WSLCB Annual Report - FY 1980

TABLE 9

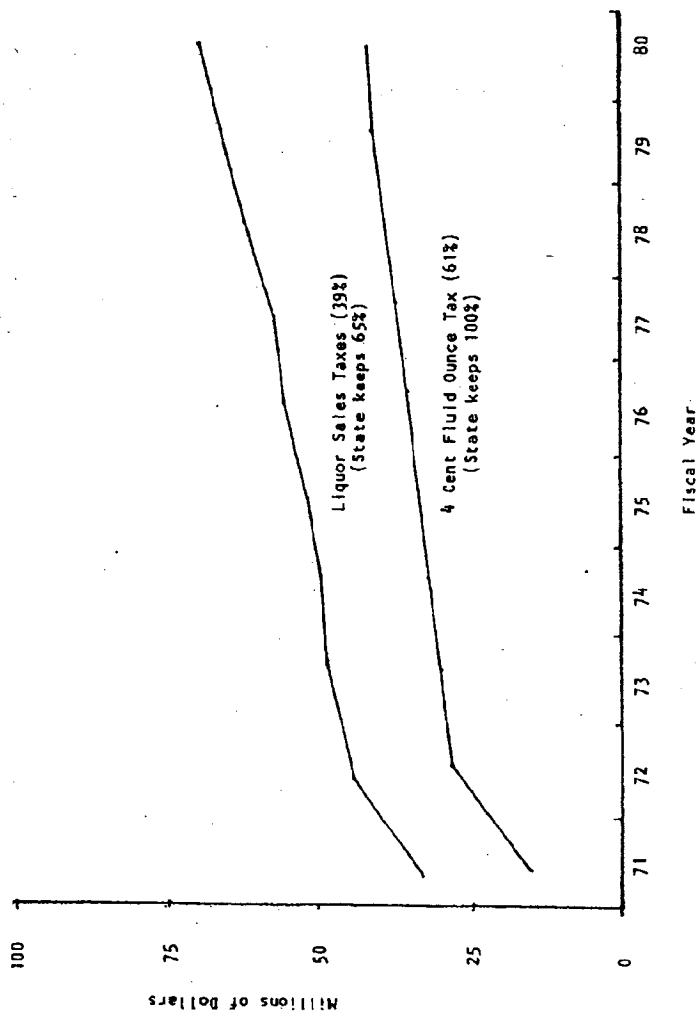
State Liquor Control Board  
Comparative Liquor Sales Taxes Collected  
FY 1971 - FY 1980  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Fluid Ounce Tax</u>	<u>Sales Taxes</u>	<u>Total</u>
1971	\$ 15.5	\$ 18.7	\$ 34.2
1972	28.7	16.9	45.6
1973	30.3	17.9	48.2
1974	32.0	17.4	49.4
1975	33.7	19.1	52.8
1976	35.5	20.2	55.7
1977	36.5	21.3	57.8
1978	39.3	23.2	62.5
1979	41.1	25.2	66.3
1980	<u>42.7</u>	<u>27.3</u>	<u>70.0</u>
FY 1971-1980 Total	\$335.3	\$207.3	\$542.5
FY 1971-1980 % Growth	175%	46%	105%

Source: WSLCB

Figure 4

State Liquor Control Board  
Comparative Summary - Liquor Sales Taxes Collected  
FY 1971 - FY 1980  
(Millions of Dollars)



was the doubling of the rate from two cents to four cents per fluid ounce by the legislature in 1971.

In comparison, the 10 and 15 percent sales tax on spirits and strong beer and the general sales tax on wine collected by the Board grew almost 46 percent during the 1970s decade, and generated over \$207 million in liquor tax revenues.

All sales tax revenues are transmitted to the Department of Revenue each month. After being recorded by Revenue, 100 percent of the fluid ounce tax moneys and 65 percent of the 10 and 15 percent sales taxes are deposited in the State General Fund. The balance of the 10 and 15 percent sales taxes are deposited in the liquor excise tax fund for distribution to local governments. Each quarter the State Treasurer distributes 80 percent of the available moneys to the 286 cities and towns located within the state and 20 percent to the 39 counties, based upon a population formula written into the state liquor statutes.

#### General Retail Sales Tax

The general retail sales tax revenues collected by the Board on its selling price of wine is distributed to the state general fund and to local governments based on the sales tax levied by each jurisdiction. This results in an approximate split of 86 percent for the general fund and 14 percent for local governments.



TABLE 10

1979 Statewide Food Sales\*  
Share of Market for Seven Largest Retail Chains  
(Millions of Dollars)

<u>Organization</u>	<u>Sales</u>	<u>Market Share</u>
Safeway	\$ 802.2	24.0%
Albertson's	403.3	12.0
Tradewell	285.6	8.5
Fred Meyer	215.0	6.4
Rosauer's	140.0	4.2
Lucky Foods	112.1	3.3
QFC	75.1	2.2
Top 7's/Share	\$2,033.3	60.6%
Total Washington	\$3,337.0	100.0%

\*Washington Grocers Association

Source: Washington Grocers Association

TABLE 11

State Liquor Control Board  
Ten Year Comparative Profit and Loss Statement  
FY 1971 - FY 1980  
(Millions of Dollars)

Merchandising Services	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	FY 1971-80 Total	FY 1971-80 % Growth
1. Net Liquor Sales	\$132.7	\$121.7	\$128.3	\$137.5	\$149.5	\$159.5	\$167.9	\$183.5	\$199.9	\$217.7	\$1,592.0	64.0%
2. Less: Cost of Goods Sold	94.4	85.9	91.2	97.8	106.3	114.0	119.2	131.2	142.2	154.8	\$1,132.0	63.9%
3. Gross Profit on Sales	38.3	35.8	37.1	39.6	43.1	45.4	48.4	52.2	57.6	62.9	\$460.0	64.2%
4. Less: Direct Sales Expenses*	8.6	8.2	8.5	10.2	11.7	13.9	14.8	16.4	18.3	21.6	\$132.0	151.1%
5. Net Profit on Sales	29.6	27.5	28.5	29.6	31.4	31.5	33.6	35.8	39.3	41.2	\$328.0	39.2%
6. Plus: Other Revenues	.1	.2	.1	.1	.1	.2	.2	.4	.5	.2	\$2.1	-
7. Net Profit Before Other Expenses	29.7	27.7	28.6	29.7	31.5	31.7	33.8	36.2	39.8	41.4	\$330.1	39.4%
8. Less: Other Expenses**	2.1	2.2	2.5	2.7	3.0	.32	3.5	3.9	4.3	4.9	\$35.7	133.3%
9. Net Profit Merchandising	\$27.6	\$25.4	\$26.1	\$27.0	\$28.5	\$28.5	\$30.3	\$32.2	\$35.4	\$36.5	\$297.4	32.2%

\* Includes Merchandising Division's share of the Board's administrative services expenses plus the costs of purchasing, warehousing and supervision of the stores and agencies.

\*\* Includes expenses for stores and agencies only.

Regulatory Services	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	FY 1971-80 Total	FY 1971-80 % Growth
10. Revenue Collected	\$2.2	\$2.2	\$2.4	\$2.5	\$2.8	\$2.8	\$3.1	\$3.3	\$3.3	\$3.5	\$28.1	59.0%
• License Fees	2.0	3.0	3.1	3.2	3.5	3.5	3.7	3.9	4.2	4.3	35.4	48.3%
• Beer Tax	.5	.5	.6	6.5	6.0	6.5	7.2	7.7	8.5	9.1	53.1	1720.0%
• Wine Tax	-	-	-	12.3	12.4	13.0	14.3	15.3	16.4	17.1	118.2	100.0%
• Mis. Revenue	5.6	5.7	6.1	12.3	12.4	13.0	14.3	15.3	16.4	17.1	118.2	205.3%
Total Collected	5.6	5.7	6.1	12.3	12.4	13.0	14.3	15.3	16.4	17.1	118.2	205.3%
11. Less: Expenses	1.5	1.4	1.5	1.7	1.9	2.1	2.2	2.4	2.6	3.1	\$20.4	106.6%
12. Net Profit - Regulation	\$4.1	\$4.3	\$4.6	\$10.6	\$10.5	\$11.0	\$11.9	\$12.5	\$13.4	\$13.9	\$96.8	239.0%
13. Interest Earned	.4	.6	.4	.6	.6	.4	.5	.7	1.0	1.2	\$6.4	200%
14. Total WSLCB Profit (9 + 12 + 13)	\$32.1	\$30.3	\$31.1	\$38.2	\$39.6	\$39.9	\$42.7	\$45.4	\$49.8	\$51.6	\$410.6	60.3%
15. Total Sales Taxes Collected by WSLCB	34.2	45.6	48.2	49.4	52.8	55.7	57.8	62.5	66.3	70.0	\$512.7	104.6%
16. Total Profit and Taxes	\$66.3	\$75.9	\$79.3	\$87.6	\$92.4	\$95.6	\$100.5	\$107.9	\$116.1	\$121.6	\$943.2	83.4%

Source: WSLCB

Liquor Profits. In addition to the sales taxes collected by the Board, another major source of revenue derived from the consumption of alcoholic beverages in the State of Washington are the liquor profits and excess revenues generated by the Board's merchandising and regulatory operations.

During fiscal year 1980, the Board's gross sales amounted to over \$304 million. Gross sales include both revenue collected from the sale of liquor during the year and the sales taxes levied on the liquor sold.

In order to provide a comparison of the size of the Board's overall financial operations, its gross sales are compared to the total state sales of the seven top retail food chains operating in the state. Table 10 illustrates the approximate annual sales of all food and beverages sold within Washington State and the market shares of the seven major food chains. When measured against the dollar volume of the major chains, the Board's gross sales volume (for liquor only) ranks third in dollar size during the same period.

- Net Sales - The Board's net sales (gross sales less sales taxes, sales tax exemptions, and sales discounts to Class H licensees) for the last ten years are included in Table 11 as the basis for calculating the Board's comparative ten year profit and loss statement.

Between FY 1971 and FY 1980, net sales grew by 64 percent and amounted to a total of over \$1.5 billion for the ten year period. However, when adjusted for inflation, the growth of net sales actually decreased in constant 1972 dollars (Table 12).

TABLE 12

State Liquor Control Board  
Net Sales Adjusted for Inflation  
FY 1971 - FY 1980  
(Millions of Dollars)

	<u>FY 71</u>	<u>FY 80</u>	<u>Percent Growth</u>
Current \$	\$132.7	\$217.7	+64%
Constant 1972 Dollars*	137.5	121.6	-11%

\*Based on U.S. Implicit Deflator Index of Personal Consumption - 1972 = 1.000.

This slower rate of growth is a result of the Board's policy to provide for the natural unstimulated demand for liquor during a period of population growth and the extremely low rate of inflation for liquor products sold by the Board during the ten year period. Tables 13 and 14 illustrate this phenomenon.

TABLE 13

State Liquor Control Board  
Ten Year Growth Comparison, Population, Gallons Sold,  
Net Sales and Prices  
FY 1971 - FY 1980

Fiscal Year	Population (Millions)	Board Sales (Millions Gallons)	Board Net Sales (Millions of Dollars)	Board Liquor Prices (Current Dollars per Gallon)		
				Spirits	Wine	Beer
1971	2.0	7.8	\$132.7	\$19.92	\$4.72	\$2.83
1972	2.1	7.2	121.7	19.91	4.75	2.70
1973	2.1	7.6	128.3	19.80	4.93	2.71
1974	2.2	8.3	137.5	19.80	5.49	2.48
1975	2.2	9.0	149.5	20.28	5.71	2.56
1976	2.3	9.4	159.5	20.60	6.10	2.87
1977	2.4	9.4	167.9	20.97	6.80	3.19
1978	2.5	9.9	183.9	21.55	7.56	3.27
1979	2.6	10.5	199.9	22.31	8.31	3.32
1980	2.7	11.1	217.1	23.19	8.93	3.46
FY 1971-1980 % Growth	31%	43%	64%	16%	71%	22%

Source: WSLCB



TABLE 14

State Liquor Control Board  
Ten Year Comparative Liquor Price Growth  
FY 1971 - FY 1980  
(Price per Gallon - 1972 and Current Dollars)

Fiscal Year	Price* Deflator Index	Spirits		Wine		Beer	
		1972 \$	Current \$	1972 \$	Current \$	1972 \$	Current \$
1971	.965	\$20.60	\$ 19.92	\$ 4.89	\$ 4.72	\$ 2.93	\$ 2.83
1972	1.000	19.91	19.91	4.75	4.75	2.20	2.70
1973	1.057	18.73	19.80	4.66	4.93	2.56	2.71
1974	1.163	17.02	19.80	4.62	5.49	2.13	2.48
1975	1.251	16.21	20.28	4.55	5.71	2.04	2.56
1976	1.316	15.65	20.60	4.63	6.10	2.18	2.87
1977	1.395	15.07	20.97	4.87	6.80	2.28	3.19
1978	1.490	14.46	21.55	5.07	7.56	2.19	3.27
1979	1.623	13.74	22.31	5.12	8.31	2.04	3.32
1980	1.789	12.96	23.91	4.99	8.93	1.93	3.46

FY

1971-1980

% Growth +85%

-37%

+16%

+3%

+71%

-34%

+22%

\*Implicit price deflator for personal consumption

Source: WSLCB/OFM

The state's adult population grew by 31.2 percent while the total gallons sold by the Board grew 43.2 percent between FY 1971 and FY 1980, indicating that total gallon sales more than kept pace with population growth. The Board's sales of spirituous liquor, about 76 percent of the Board's total sales in FY 1980, grew at almost the same rate as the state's adult population. The Board's wine sales, about 20 percent of the Board's total sales in FY 1980, grew 59.9% during the same ten year period.

During the same ten year period (FY 1971-FY 1980), the price of spirituous liquor grew by only 16.4 percent in current dollar prices, but actually decreased by 37.1 percent in constant 1972 dollar prices. Thus, although the Board's net sales during this period increased due primarily to population growth, the rate of increase in net sales did not keep up with the general rate of inflation due to the low inflation rate in the price of its highest volume item, spirituous liquor.

- **Markup Profits** - The Board has complete authority to designate the price of all the alcoholic beverages it sells, limited only by the proviso that the net annual revenue received by the Board does not exceed 35 percent (RCW 66.16.100). The Board has set its markup rates at 45.9 percent for the hard liquor, 60 percent for wine products, and 70 percent for strong beer. These markups are well within the statutory limits and provide the state with the amount of revenue it wishes to exact from the sale of liquor.

- a. **Pricing Policy** - In order to establish a markup base for its products, the Board adds freight and other acquisition costs to the suppliers' prices. For items purchased from foreign importers, federal import taxes and duties are also added before the markup percentage is applied. State sales and liter taxes are added to calculate the Board's sales price to the consumer. In addition, the state's general sales tax is also added to the price of wine.

The Board's sales prices for the three product groups handled by the Board are determined by applying the formulas displayed by Table 15:

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TABLE 15

Board Markup and Sales Taxes

	<u>Markup</u>	<u>Sales Taxes</u>	<u>General Sales Taxes</u>
Distilled Spirits	45.9%	15% + \$1.72 Per Liter	None
Wine	60.0%	20.25¢ Per Liter	5.4 to 6.5%
Malt Beverages	70.0%	15%	None
Distilled Spirits to Class H Licensees	45.9%*	10% + \$1.72 Per Liter	None

\*With a 15% discount on the Board price before taxes

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Class "H" licensees, who are allowed to sell hard liquor by the drink in cocktail lounges, are given a fifteen percent discount on the Board's marked up price before taxes.

The results of the Board's pricing policies are illustrated with the cost breakdown of a bottle of hard liquor depicted in the Board's FY 1981 annual report:

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TABLE 16

Price of 750 ml. of Distilled Spirits, 80 Proof  
July 1, 1981

	<u>Price</u>	<u>Percent</u>
\$1.72 per liter state sales tax	\$1.29	18.3%
15 percent state sales taxes	0.75	10.6
Net Profit	0.90	12.8
Operating Expenses	0.68	9.6
Freight Costs	0.15	2.1
Federal Taxes	1.67	23.7
Distillery Price	<u>1.61</u>	<u>22.8</u>
	\$7.05	100.0%

(It should be noted that the federal and state taxes amount to \$3.71 or 52.0 percent of the \$7.05 total price)

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During the 1982 legislative session the \$1.72 liter tax and the 15 percent sales tax on hard liquor were increased temporarily to \$1.96 and 17.1 percent respectively until June 30, 1983. The 10 percent Class H licensee tax on spirits was also temporarily increased to 11.4 percent at that time. These changes amount to a temporary tax increase of 14 percent on hard liquor.

- b. Wine Prices - It has been the Board pricing policy on wine that has irritated private wine retailers in the past. The friction between the Board and the licensees arises mainly because the licensees and the Board are competing head to head in the same market.

Prior to July 1, 1982, the Board markup rate for wine was only 45.9 percent. As illustrated by Table 15, the liter tax and the general sales tax were added to the markup price to calculate the sales price to the consumer.

Commercial wine distributors choose to treat the liter tax as an acquisition cost and add it to the cost of wine prior to the application of their wholesale markup rate. The wine is then marked up again by the retailer. Consequently, the Board has enjoyed considerable price advantage under these procedures.

As an example, a hypothetical one dollar liter bottle of wine was priced as follows (Table 17):

TABLE 17

Markup Price Comparison  
Public vs. Private

Commercial

Landed Price	\$ 1.00
Liter Tax	+ .2025
Markup Base	1.2025
Wholesale Markup	X 35%
Wholesale Price	\$ 1.6233
Retail Markup*	X 35%
Retail Price	\$ 2.1915
General Sales Tax	X 5.4%
Consumer Cost	\$ 2.3090

Board

Landed Price	\$ 1.00
Markup	X 45.9%
Base Price	\$ 1.4590
Liter Tax	+ .2025
Retail Price	\$ 1.6615
General Sales Tax	X 5.4%
Consumer Cost	\$ 1.7512

Differential .5578 cents per liter or 31.85 percent



As of July 1, 1982, the Board increased its wine markup to 60 percent of the landed price. This action reduced the commercial price differential to .2209 cents per liter or 21.5 percent. Under this arrangement, the public and commercial wine prices can become very competitive if and when the commercial wine distributors choose to adjust their markup rates. For example, the use of a twenty percent commercial wholesale and retail markup rate would result in a consumer cost of \$1.8181 per one liter bottle as compared to the Board's price of \$1.8998 per one liter bottle using the new sixty percent markup rate.

In spite of the price advantage that can be obtained for wine at state liquor stores, the shares of the market have remained relatively constant during the past five years (Fiscal Years 1977-1981). The Board's share has remained at 18 percent, while the private stores continue to capture 82 percent of the wine market. It is not known what effect the increase in the Board's markup on wine products from 45.9 percent to 60 percent will have on the shares of the market in the future.

There are other areas of disagreement between the Board and the wine industry including restrictions on wine merchandising practices, advertising, and the handling of surplus stock and price postings. A list of concerns recently developed by the wine industry is attached to this report as Appendix G.

Recent legislation permitting beer merchants to sell "strong beer" created an identical pricing situation for the state's beer distributors. However, on July 1, 1982, the Board also increased its beer markup from 45.9 percent to 70 percent in anticipation of potential price differential problems similar to those of the wine industry.

- c. Cost of Goods Sold - Again the cost of goods sold by the Board includes the manufacturer's price plus any federal taxes plus freight. The growth of the cost of goods sold is illustrated in Table 11, Item #2. When adjusted for inflation (Table 18), the Board's cost of goods sold decreased by 11.9 percent in constant 1972 dollars.

**TABLE 18**

**State Liquor Control Board  
Cost of Goods Sold Adjusted for Inflation  
FY 1971 - 1980  
(Millions of Dollars)**

	<u>FY 1971</u>	<u>FY 1980</u>	<u>Percent Growth</u>
Current Dollars	\$ 94.4	\$ 154.8	+ 64%
Constant 1972 Dollars*	97.8	86.5	- 12%

\*Based on U.S. Implicit Deflator Index of Personal Consumption -  
1972 = 1.000

Tables 13 and 14 illustrate the growth in manufacturers' prices for beer, wine, and liquor. They also illustrate the consumer bargain of distillery and brewery price rates and the growth of wine sales during the 1970s decade.

The federal tax on distilled spirits is based on proof gallons and is applied on withdrawal from U.S. Government bonded storage. The tax on beer is based on a thirty-one gallon barrel and is collected at the producer's level. The tax on wine, also collected at the producer level, is based on different rates of alcoholic content. In addition to federal excise taxes, the federal government imposes numerous special or occupational taxes on rectifiers, brewers, and wholesale and retail dealers of all types of alcoholic beverages. Finally, a customs duty is levied, in addition to the excise taxes on all imported items.

Although federal taxes on liquor have not changed since 1957, the federal government is now considering a 100 percent increase in federal liquor taxes. If federal liquor taxes are increased, Washington State will be forced to reconsider its entire liquor taxing and markup profit structure.

- d. Merchandising Expenses - An analysis of the comparative profit and loss statements for the ten year period between FY 1971 to FY 1980 (Table 11) indicates that the direct sales expenses incurred by the Board in relation to net sales have grown significantly.

Table 19 indicates that the Boards net sales rose 64.0 percent from FY 1970 to FY 1980. In comparison, direct expenses rose from \$10.7 million in FY 1970 to \$26.5 million in FY 1980, or a ten year increase of 148 percent.



TABLE 19

State Liquor Control Board  
Cost of Goods Sold, Expenses, and Profits  
as a Percent of Net Sales  
FY 1971 - FY 1980  
(Millions of Dollars)

Fiscal Year	Cost of Goods Sold		Merchandising Division Expenses		Profits from Merchandising		Net Sales
	\$	%	\$	%	\$	%	\$
1971	\$ 94.4	71.1%	\$ 10.7	8.1%	\$ 27.6	20.8%	\$132.7
1972	85.9	70.9	10.4	9.2	25.4	20.8	121.7
1973	91.2	71.0	11.0	8.7	26.1	20.3	128.3
1974	97.8	71.1	12.7	9.3	27.0	19.6	137.5
1975	106.3	71.1	14.7	9.9	28.5	19.0	149.5
1976	114.0	71.4	17.1	10.8	28.4	17.8	159.5
1977	119.2	71.1	19.8	10.9	30.3	18.0	167.9
1978	131.2	71.5	20.3	11.4	32.2	17.5	183.5
1979	142.2	71.1	22.6	11.2	35.4	17.7	199.9
1980	154.8	71.1	26.5	12.2	36.5	16.7	217.7
FY 1971-1980							
\$ Growth	64%	-	148%	-	32%	-	64%

Source: WSLCB

It is evident from the information presented by Table 19 and 20 and illustrated by Figure 5 that the Board's direct merchandising expenses have grown at a substantially greater rate than the net dollars received from liquor sales.

The major items of direct sales expense are the employees' salaries and benefits and the store leases. During FY 1980, employee salaries and benefits accounted for 77.6 percent of the total expenses incurred by the Board.

Figure 5

State Liquor Control Board  
Ten Year Comparative Summary of  
Cost of Goods Sold, Expenses and Profits  
as a Percent of Net Sales  
(In percents)

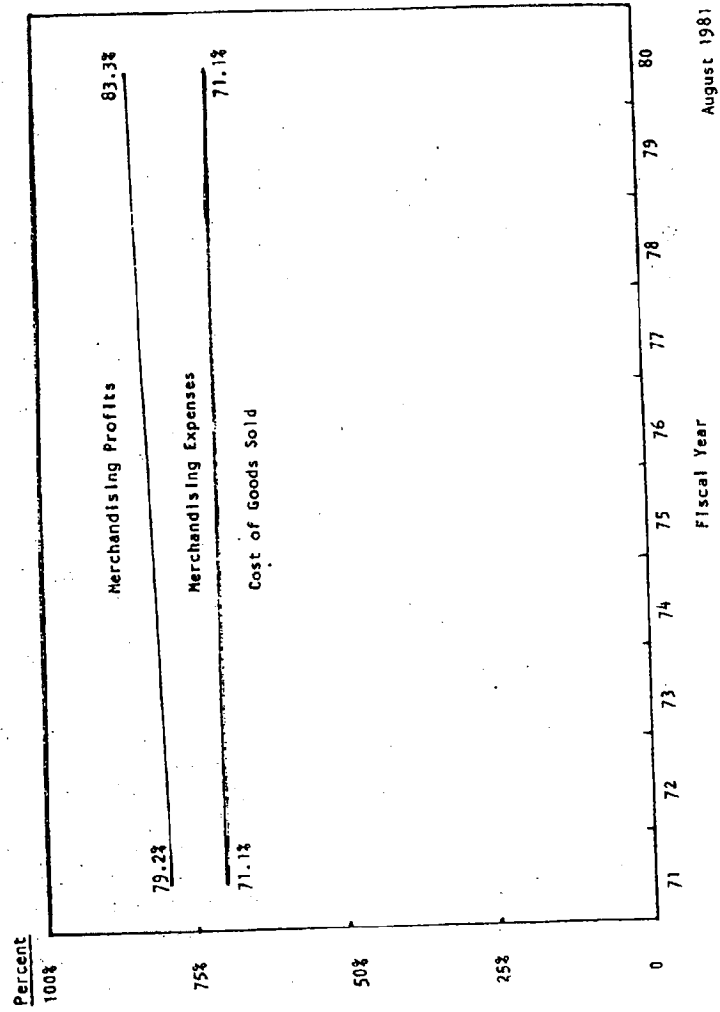


TABLE 20

State Liquor Control Board  
Direct Merchandising Expenses Adjusted for Inflation  
FY 1971 - FY 1980  
(Millions of Dollars)

	<u>FY 1971</u>	<u>FY 1980</u>	<u>Percent Growth</u>
Current Dollars	\$10.7	\$26.5	+ 148%
Constant 1972 Dollars*	11.0	15.0	+ 36%

\*Based on U.S. Implicit Deflator Index of Personal Consumption - 1972 = 1,000

It must be pointed out that this cost/profit squeeze is not a direct management problem, but is the result of the very low growth rate of liquor prices and the markup restrictions placed on the Board coupled with employee salaries and benefits established by the State Personnel Board and adopted by the Legislature.

Table 19 indicates that the Board's net revenue from liquor sales has grown at the same rate as the cost of goods sold. This is due to the sustained use of the 45.9 percent liquor markup rate used by the Board. However, as the Board's merchandising expenses have grown, markup profits as a percentage of net sales, have decreased by 4.1 percent over the ten year period.

- e. Merchandising Profits - The Board's liquor merchandising activities generate about a third of its revenue. Table 11, Item 9 illustrates the level of merchandising, or markup profits generated by the Board since FY 1971. It is these profits that have been the concern and the target of private business interests during recent years. Between FY 1971 and FY 1980, nearly \$300 million in markup profits have been generated by the Board for distribution to state and local governments. If the Board should be divested of its liquor merchandising responsibilities, it is the liquor markup profits that would have to be replaced with revenue from other sources.

The cost/profit squeeze is illustrated by Table 19 and Figure 5. Direct liquor profits have grown from \$27.6 million in FY 1971 to \$36.7 million in FY 1980 or 32.2 percent over the ten year period, but when adjusted for inflation, the Board's profits derived directly from the sale of liquor actually decreased by 28.7 percent in constant 1972 dollars.

TABLE 21

State Liquor Control Board  
Merchandising Profits Adjusted for Inflation  
FY 1971 to FY 1980  
(Millions of Dollars)

	<u>FY 1971</u>	<u>FY 1980</u>	<u>Percent Growth</u>
Current Dollars	\$27.6	\$36.5	+32%
Constant 1972 Dollars*	28.6	21.8	-29%

\*Based on U.S. Implicit Deflator Index of Personal Consumption -  
1972 = 1.000

Other Sources of Revenue. In addition to liquor sales taxes and mark-up profits there are several other sources of liquor revenue, illustrated by Table 8, collected by the Board.

As illustrated by the ten year profit and loss statement (Table 11), the excess revenues from the beer and wine taxes, and license fees make up the bulk of the balance of revenues collected by the Board.

- Excess Revenues - The tax revenues collected from the beer and wine producers, importers, and wholesalers together with license fees are used to support the regulatory functions of the Board. In reporting these revenues, the Board lists them under the license and enforcement division's profit and loss statement as illustrated by Table 11, Item 10. License and enforcement expenses are deducted from the revenues listed and the excess revenues are then added to the profits from the merchandising division to obtain the amount available for distribution to the state and local governments and to the state universities for medical research.

- a. State Wine Tax - In Washington, both domestic and imported wines may be sold directly to licensed wholesalers. An excise tax (RCW 66.24.210) of seventy-five cents per gallon or twenty cents per liter must be paid on all wine sales by the wholesalers. An additional one-quarter cent tax was imposed on wine sales during the 1981 regular session to finance wine growing research conducted at Washington State University.

Retailers of wine, including the state liquor outlets, must also add the state and local general sales taxes to the retail price of wine.

Prior to 1969, all wines produced outside the state of Washington were sold by the Board. Washington wine retailers had to purchase imported wine from the Board at the marked up sales price. At that time, imported wines were taxed at 15 percent of the sale price while domestic wines were taxed at 10 percent, and in addition, domestic wines paid a ten cent per gallon excise tax.

On July 1, 1969, the state liquor laws were changed to allow all wines, domestic or imported, to be sold directly to wholesalers, thus eliminating the Board's markup. In addition, the sales taxes on wine were equalized with a single 26 percent sales tax on the wholesaler's selling price of both domestic and imported wines and the ten cent per gallon tax was extended to wines produced outside the state.

In 1974, wine taxation was again changed to remove the 26 percent sales tax on the selling price, increase the gallonage tax from ten cents to 75 cents a gallon, and apply it to all wines whether sold through the Board or through private licensees.

During the 1981 legislative session, the 75 cents a gallon wine tax was changed to a .20 cents per liter tax and the additional one-quarter cent per liter tax for wine research was added.



As a result of the 1982 legislative session, the wine tax was temporarily increased to .2167 cent per liter until June 30, 1983.

- b. State Beer Tax - The sale of beer in Washington is governed by RCW 66.24.290. Any brewer, manufacturer, or beer wholesaler licensed under Title 66 may sell and deliver beer directly to the holders of authorized retail licenses. The beer sales do not contribute revenues through the Board's profit system, and hence a separate excise tax is levied for the privilege of manufacturing and selling beer in the state. Brewers or beer wholesalers pay an excise tax at the rate of \$2.60 per 31 gallon barrel of beer and the same for a 31 gallon equivalent of canned or bottled beer.

Prior to 1965, beer was taxed at \$1.00 per 31 gallon barrel. In 1965 the tax on sales of bottled or canned beer to retail licensees was increased to \$1.50 per 31 gallons. The tax was raised to \$2.60 in 1981.

The beer tax was again increased to \$2.78 on a temporary basis during the 1982 legislative session.

- c. Revenues from License and Permit Fees - In addition to the taxes on liquor, revenues are obtained from annual license fees and permits.

Under Washington State law, all types of dealers in alcoholic beverages must be licensed by the State Liquor Control Board. License fees for distillers and wholesalers are fixed at a flat annual rate by activity, and for wineries and breweries, on the basis of production.

Annual licenses are also issued by the Board to establishments for retail sales of alcoholic beverages. Because each class of license permits only a specific type of sale, some establishments may obtain two or three or more types of licenses.

The classes of license and their fee schedules can be found in the liquor control statutes (RCW 66).

Table 22 indicates that over \$118 million in wine and beer taxes and license fees were collected by the Board between FY 1971 and FY 1980, increasing by over 200 percent during the ten year period. The major reason for this growth was the substitution of the 75 cent per gallon tax on wine for the 26 percent wine sales tax in 1974.



TABLE 22

State Liquor Control Board  
Comparative Excise Taxes and License Fees Collected  
FY 1971 - FY 1980  
(Millions of Dollars)

Fiscal Year	Wine Tax	Beer Tax	License Fees	Miscellaneous Revenue	Total
1971	\$ .5	\$ 2.9	\$ 2.2	\$ -	\$ 5.6
1972	.5	3.0	2.2	-	5.7
1973	.6	3.1	2.4	-	6.1
1974	6.5	3.2	2.5	.1	12.3
1975	6.0	3.5	2.8	.1	12.4
1976	6.5	3.6	2.8	.1	13.0
1977	9.2	3.7	3.1	.3	14.3
1978	7.7	3.9	3.3	.4	15.3
1979	8.5	4.2	3.3	.4	16.4
1980	9.1	4.3	3.5	.2	17.1
Ten Year Total	\$53.1	\$35.4	\$28.1	\$ 1.6	\$118.2
FY 1971-1980					
% Growth	1820%	48%	59%	NA	205%

Source: WSLCB

- d. Total Excess Revenue - The Board's excess revenues derived from the license and enforcement division are illustrated by Table 23.

Due to the large growth of the wine tax in this revenue category and the slowing of the division's expenses, the total excess revenues from this source increased at a rate well above inflation during the ten year period.

All revenues collected by the Board from wine and beer taxes, license fees, and other miscellaneous income are placed in the Board's liquor revolving fund and used to support liquor regulatory activities. Each quarter all excess revenues in the fund are distributed to state and local governments. Fifty percent of the excess funds are placed in the state general fund and 50 percent are placed in the liquor excise tax fund for distribution to local governments. Of that amount, 80 percent is, in turn, distributed to the 286 cities and towns and 20 percent is distributed to the 39 counties based on population.

TABLE 23

State Liquor Control Board  
Excess Revenue from Licensing and Enforcement Activities  
Adjusted for Inflation  
FY 1971 - FY 1980  
(Millions of Dollars)

	<u>FY 1971</u>	<u>FY 1980</u>	<u>Percent Growth</u>
Revenues:			
Current Dollars	\$5.6	\$17.1	+205%
Constant 1972 Dollars*	5.8	9.5	+ 64%
Expenses:			
Current Dollars	\$1.5	\$ 3.1	+107%
Constant 1972 Dollars*	1.5	1.7	+ 13%
Excess Revenues:			
Current Dollars	\$4.1	\$14.0	+241%
Constant 1972 Dollars*	4.2	7.8	+ 86%

\*Based on U.S. Implicit Deflator Index of Personal Consumption -  
1972 = 1.000

- Class H Carriers Markup - All types of commercial passenger carriers operating interstate are taxed at the same rate and markup as Class H licensees for liquor sold within the state of Washington. In the event the liquor sold was purchased in state outlets, no action is necessary since the normal charges are applied prior to sale. Special audits and record checks are made of carrier liquor sales to ascertain markup charges.
- Cash Discounts - In some liquor purchases, cash discounts are offered to the state for cash or short-term transactions. Usually the discounts are only offered under special circumstances and the income is minor during most fiscal periods. However, the possibility exists that economic conditions could result in a significant amount of income from this source.
- Interest Income - All surplus liquor board revolving funds on deposit with the State Treasurer, along with state surplus cash balances over and above current needs, are invested under procedures established by state law. Interest income is distributed in accordance with statutory directives.

Total Liquor Revenues and Their Distribution. Table 11 (page 31) illustrates the Board's financial reporting procedures which are also described as follows:

- Total Revenues - Profits generated by the Board's retail liquor merchandising activities (Table 11, Item 9) are added to the excess revenues from license and enforcement operations (Table 11, Item 12) and the interest earned (Table 11, Item 13) to calculate the total profits generated by the Board's liquor control activities (Table 11, Item 14).

The sales taxes collected each year by the Board (Table 11, Item 15) as a result of the state's 10 and 15 percent sales tax on spirits and strong beer, the fluid ounce or \$1.72 per liter tax on spirits, and the general retail sales taxes on the sales of wine and alcohol sold by the Board are added to net profits to obtain the total liquor revenues generated by the Board.

Table 24 illustrates the total dollar amount contributed to total liquor revenues by the two major sources over the ten year period between FY 1971-FY 1980. Over \$400 million in profits and \$543 million from sales taxes for a total \$943 million in liquor revenues has been generated by the Board during the decade of the 1970s.

Over the ten year period, total liquor revenues grew at approximately the same rate as inflation when measured by the U.S. implicit price deflator for personal consumption. However, total profits grew only 60.9 percent while the sales taxes collected grew 104.0 percent during the same period. As a comparison, however, profits generated from liquor merchandising operations grew only 32.2 percent.

- Distribution of Liquor Revenues - Table 24 also lists the annual amount actually distributed to state and local governments and the universities.

By statutory directive, all annual income derived from Class H license fees, penalties, and forfeitures is distributed quarterly to the University of Washington and Washington State University for medical and biological research. Should the total dollars allocated to the universities amount to one million dollars in any one biennium, state law further directs that the entire allocation for the remainder for the biennium shall be made directly to the state Department of Social and Health Services to assist in state and local programs on alcoholism.

Revenues from the other sources are distributed as follows:

a. Sales Taxes:

All proceeds received by the board as a result of the \$1.72 liter tax on the spirituous liquor sold by the board are deposited in the state general fund and no further distribution is made.

TABLE 24

State Liquor Control Board  
Ten Year Summary of Liquor Taxes and Profits  
FY 1971 - FY 1980  
(Millions of Dollars)

Fiscal Year	Liquor Profits				Sales Taxes	Total Profits & Taxes	Total Liquor Revenues Distributed
	Merch.	Lic./Enf.	Earned Income	Total			
1971	\$ 27.6	\$ 4.1	\$ .4	\$ 32.1	\$ 34.2	\$ 66.3	\$ 65.6
1972	25.4	4.3	.6	30.3	45.6	75.9	78.2
1973	26.1	4.6	.4	31.1	48.2	79.3	79.3
1974	27.0	10.6	.6	38.2	49.4	87.6	87.8
1975	28.5	10.5	.6	39.6	52.8	92.4	91.8
1976	28.5	11.0	.4	39.9	55.7	95.6	96.0
1977	30.3	11.9	.5	42.7	57.8	100.5	99.0
1978	32.2	12.5	.7	45.4	62.5	107.9	108.0
1979	35.4	13.4	1.0	49.8	66.3	116.1	114.7
1980	36.5	13.9	1.2	51.6	70.0	121.6	118.0
FY 1971-1980 Total	\$297.4	\$ 96.8	\$6.4	\$400.6	\$542.7	\$943.2	\$938.4
FY 1971-1980 % Growth	32%	239%	200%	61%	104%	83%	81%

Source: WSLCB Annual Reports

Proceeds collected by the board as a result of the liquor sales tax of 10 and 15 percent on the sales of spirituous liquor and strong beer are distributed each quarter - 65 percent to the state general fund and 35 percent to the liquor excise tax fund for further distribution to local governments. Each quarter the money in the liquor excise tax fund is distributed to the local governments by the State Treasurer. Eighty percent goes to the cities and towns and twenty percent to the 39 counties based upon a population formula provided in the statutes.

b. Markup Profits and Excess Revenues:

The profits generated by the board from the sale of spirits, wine, and strong beer are distributed 50 percent to the state general fund, 40 percent to the cities and towns and 10 percent to the 39 counties on the same basis as the other liquor excise tax fund distributions.

**TABLE 25**

**State Liquor Control Board  
Ten Year Summary of Profit Distribution  
to State and Local Governments  
FY 1971 - FY 1980  
(Millions of Dollars)**

<u>Fiscal Year</u>	<u>Cities</u>	<u>Counties</u>	<u>State</u>	<u>Total Profits Distributed</u>
1971	\$ 12.0	\$ 3.0	\$ 15.1	\$ 30.1
1972	12.5	3.1	15.6	31.2
1973	11.9	2.9	14.9	27.7
1974	14.8	3.7	18.5	37.0
1975	15.0	3.7	18.7	32.4
1976	15.4	3.8	19.3	38.5
1977	15.8	3.9	19.7	39.4
1978	17.4	4.3	21.8	43.5
1979	18.5	4.6	23.2	46.3
1980	18.4	4.6	23.0	46.0
FY 1971-1980 Total	\$151.7	\$37.6	\$189.8	\$379.1
FY 1971-1980 % Growth	53%	53%	53%	53%
FY 1971-1980 Share	40%	10%	50%	100%

Source: WSLCB Annual Reports



TABLE 26

State Liquor Control Board  
 Ten Year Summary of Liquor Sales Tax  
 Distribution to State and Local Governments  
 FY 1971 - FY 1980  
 (Millions of Dollars)

<u>Fiscal Year</u>	<u>Cities</u>	<u>Counties</u>	<u>State</u>	<u>Total Tax Revenue Distributed</u>
1971	\$ 5.2	\$ 1.3	\$ 27.7	\$ 34.2
1972	4.7	1.1	39.7	45.6
1973	5.0	1.2	42.0	48.2
1974	4.7	1.2	43.4	49.5
1975	5.1	1.3	46.3	52.8
1976	5.5	1.4	48.3	55.7
1977	5.7	1.4	50.5	57.8
1978	6.3	1.5	54.6	62.5
1979	6.8	1.7	57.7	66.3
1980	<u>7.4</u>	<u>1.8</u>	<u>60.7</u>	<u>70.0</u>
FY 1971-1980 Total	\$56.4	\$13.9	\$471.5	\$542.7
FY 1971-1980 % Growth	42%	38%	119%	104%
FY 1971-1980 Share	10%	3%	87%	100%

Source: WSLCB Annual Reports

TABLE 27

State Liquor Control Board  
 Ten Year Summary of Total Liquor Revenue  
 Distribution to State and Local Governments  
 FY 1971 - FY 1980  
 (Millions of Dollars)

<u>Fiscal Year</u>	<u>Cities</u>	<u>Counties</u>	<u>State</u>	<u>Others*</u>	<u>Total</u>
1971	\$ 17.2	\$ 4.3	\$ 42.8	\$ 1.1	\$ 65.6
1972	17.2	4.3	55.3	1.2	78.2
1973	16.9	4.2	56.9	1.2	79.3
1974	19.5	4.8	61.9	1.4	87.8
1975	20.1	5.0	65.0	1.5	91.8
1976	21.0	5.2	68.1	1.6	96.0
1977	21.5	5.4	70.2	1.7	99.0
1978	23.7	5.9	76.4	1.8	108.0
1979	25.4	6.3	80.9	1.9	114.7
1980	25.8	6.4	83.7	2.0	118.0
FY 1971-1980 Total	\$208.3	\$51.8	\$661.2	\$15.4	\$938.4
FY 1971-1980 % Growth	50%	49%	95%	82%	81%
FY 1971-1980 Share	22%	5%	71%	2%	100%

\*Others DSHS, Universities

Source: WSLCB Annual Reports

Tables 25 and 26 illustrate the actual distribution of liquor profits and sales taxes during the ten year period between FY 1971 to FY 1980. Although the local governments share half of the liquor profits, they received only 13 percent of the sales tax revenues. As a result, local governments received less than thirty percent of the total liquor revenues (Table 27) generated by the board during the ten year period. Since the state keeps 100 percent of the liter tax monies and 65 percent of the sales tax funds and shares the slower growing liquor profits equally with local government, local government's share of the liquor revenues has grown approximately one half as fast as the state share. When adjusted for inflation, local government's share decreases approximately twenty percent in constant 1972 dollars while the state's share increased slightly (Table 28).

TABLE 28

State Liquor Control Board  
Distribution of Liquor Revenues Adjusted For  
Inflation FY 1971 - FY 1980

<u>State</u>	<u>FY 1971</u>	<u>FY 1980</u>	<u>Percent Growth</u>
Current Dollars	\$42.8	\$83.7	+95%
Constant 1972 Dollars*	44.3	46.7	+ 5%
<u>Cities</u>			
Current Dollars	\$17.2	\$25.8	+50%
Constant 1972 Dollars*	17.8	14.4	-19%
<u>Counties</u>			
Current Dollars	\$ 4.3	\$ 6.4	+49%
Constant 1972 Dollars*	4.4	3.5	-20%

\*Based on U.S. Implicit Deflator Index of Personal Consumption - 1972 = 1.000

Table 29 and Figure 6 illustrate the unequal distribution of liquor sales tax moneys between state and local governments during the ten year period between FY 1971 - FY 1980. Again, only thirteen percent of the sales tax portion of liquor revenues was distributed to the local governments during the 1970s.

- State General Fund Receipts. Table 30 indicates that liquor revenues as a percent of total state general fund revenues have decreased during the past ten years from 4.6 percent in FY 1972 to 2.6 percent in FY 1980. Although total liquor revenues grew by 95.3 percent between FY 1971 and FY 1980, total state general fund receipts grew 169.0 percent during the same period.

TABLE 29

State Liquor Control Board  
Ten Year Summary of Liquor Sales Taxes  
by Type  
FY 1971 - FY 1980  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Ounce* Tax</u>	<u>15% Sales** Tax***</u>	<u>Total</u>	<u>State's Share</u>
1971	\$15.5	\$ 18.7 (12.1)	\$ 34.2	\$27.7
1972	28.7	16.9 (10.9)	45.6	39.7
1973	30.3	17.9 (11.6)	48.2	42.0
1974	32.0	17.4 (11.3)	49.4	43.7
1975	33.7	19.1 (12.4)	52.8	46.3
1976	35.5	20.2 (13.1)	55.7	48.8
1977	36.5	21.3 (13.8)	57.8	50.5
1978	39.3	23.2 (15.0)	62.5	54.6
1979	41.1	25.2 (16.3)	66.3	57.7
1980	42.7	27.3 (17.7)	70.0	60.7
% Share	61%	39%	100%	

\*State keeps 100.0% of ounce tax

\*\*State keeps 65.0% of sales tax

\*\*\*Includes general retail sales tax

( ) = State's share

Source: WSLCB Annual Reports

Profits from the board's liquor merchandising activities grew only 31.8 percent between FY 1971 and FY 1980 and amounted to only one half of one percent of the total state general fund receipts in FY 1980. It is the profits from the board's merchandising activities, \$18.2 million in FY 1980, that would have to be replaced if the board's liquor retailing activities were eliminated.

### Liquor Control Policy Considerations

The Board's Administration of the Statutes. The state of Washington has been in the business of selling liquor for 50 years. During that time, the state's retail liquor organization has become a multi-million dollar enterprise providing revenues for state and local government operations. Hundreds of people are employed selling liquor and providing very effective control over the flow of liquor in Washington State.

Since 1933, when the state liquor control system was established, few major changes have been made to the original act. Additionally, no major movement has developed to change the basic character and purpose of the liquor laws. With the exception of the "liquor by the drink" initiative approved in 1948, efforts to structurally change the system have received little public support. Most proposed amendments to the statutes have amounted to detailed procedural changes rather than basic structural modifications.

In contrast to the turbulent history of liquor control prior to the enactment of the Steele Act in 1933, the public acceptance of state liquor control since the Steele Act was adopted indicates that the present liquor control system is well adapted to what the people of Washington want and are willing to live with. Possible improvements lie mainly in the administration and enforcement of the laws rather than in trying to implement basic changes to laws that seem to be working well.

The liquor control system indicators that have been summarized in this section of the report reveal that the State Liquor Control Board, established by the Steele Act to administer the liquor laws, operates a modern enforcement and merchandising organization. During the ten year period under review, the board has very skillfully met its responsibilities of providing for the natural unstimulated demand for alcoholic beverages by the general public. At the same time, the board has protected the public by strictly enforcing liquor control laws that insist upon a distinctly separated alcohol manufacturing and distribution system. The board has been very successful in controlling irresponsible competitive practices and ensuring the purity of alcoholic products.

The number of retail outlets the board operates, the number of people it employs, and the gallons of hard liquor sold all grew at approximately the same rate as the state adult population (over 21's) during the 1970s. The board's primary marketing policy has been the provisioning of a broad selection of products and efficient service at the 354 conveniently located outlets it operates throughout the state.

While having to operate within the restrictions of the state liquor laws, the board's gross sales amounted to \$304 million in FY 1980. This amount would rank third in sales volume among the seven major food chain store organizations operating within Washington State.

Although the board's overall productivity, when measured by the gallons of liquor sold per employee, increased above two percent per year between FY 1973 and FY 1981, profits as a percentage of net sales, decreased from 20.8 percent in FY 1971 to 16.7 percent in FY 1980.



The nature of marketing liquor in Washington has placed the board in a box. The board cannot promote or encourage increased liquor consumption and it cannot alter its markup rate (increased prices would mean reduced sales). At the same time, the cost of goods sold has grown at a very low annual rate due to the very low annual price increases of distilled liquor and stable Federal liquor taxes which have not changed since 1957.

While the board is restricted to slow net sales growth (64.0 percent), its direct sales expenses have grown at a much faster rate (147.6 percent) between FY 1971 to FY 1980. Although the cost/profit squeeze is not the result of the board's management, but is more in the nature of the system, the board has tended to expend more of its time, efforts, and resources on liquor merchandising than on its enforcement activities.

While liquor merchandising activities have expanded (in the number of employees and retail outlets), the liquor control regulatory resources have realized very little growth to meet increased enforcement demands. The number of retail liquor licensees to be policed increased from 6,508 to 8,387 between FY 1971 to FY 1980 or 28.8 percent.

During the same period, total regulatory personnel increased from 103 to 113 persons or 10 percent. The number of retail licensees per regulatory employee increased from 57.5 to 81.4 during the ten year period.

Although this allocation of resources may be satisfactory, the situation has been noted in two audits by the Legislative Budget Committee. The most recent report, LBC Report No. 78-13, was issued in December 1978.

Just why the enforcement staff has not kept pace with the growth of the system is not clear. The reasons may be external to the board's operations and involve the executive budget process and/or legislative policy considerations. The demand for state general fund revenues may be so critical that these funds are being taken from liquor profits at the expense of liquor law enforcement.

Other than the enforcement staffing policy question, which may be outside the prerogative of the Board, the Board has apparently done an excellent policy level job of maintaining liquor control as charged by the Steele Act. Consumption has been kept down and enforcement seems to be satisfactory. Irresponsible competitive practices are kept in control and the purity of alcoholic products has been maintained.

Potential Liquor Control Policy Problems. Several policy level problems have emerged during recent years relative to the state's liquor control system. These problems are briefly discussed below:

- The high prices of liquor in Washington
- The pricing of wine and beer
- The unequal distribution of liquor revenues
- The role of state government in retail liquor sales



High prices - As a result of the recent shift from the ounce tax to the liter tax, the ounce tax was increased from four cents to five cents per ounce or \$1.72 per liter. This increase has, in turn, resulted in the highest liquor prices in the nation.

The high prices do not result from liquor merchandising by the State Liquor Control Board, but are the result of the 10 and 15 percent sales tax and the new liter tax on liquor. Almost 30 percent of the price of a bottle of spirituous liquor is the result of these special taxes.

The original intent of the Steele Act was to offer liquor for sale in state operated dispensaries at low prices to discourage bootlegging and to control irresponsible merchandising practices. Profits were to be put to work for social betterment with revenue generation of secondary importance. However, all that has changed since the early 1960s. Revenues from the sale of liquor have become more than an incidental item. Nearly one billion dollars in profits and taxes were generated from liquor sales during the 1970s alone. This figure includes over \$400 million in profits and over \$542 million from the special sales taxes on liquor.

Washington's high liquor taxes encourage tax avoidance and smuggling. The public is also becoming increasingly unhappy with Washington's high liquor prices and the situation could get worse. The Federal government has recently announced that it wants to double Federal liquor excise taxes.

If Federal taxes are increased, either Washington's liquor prices will go through the roof or state liquor taxes and profit margins will have to be adjusted in order to maintain present price levels. In either case, state and local governments in Washington will probably lose revenue from liquor sales.

Wine and Beer Pricing - The State Liquor Control Board's pricing of wine has been the cause for considerable friction between the Board and the state's wine distribution industry for some time.

Prior to 1982, only wine and light beer could be sold in private retail stores. However, state liquor laws were changed during the 1982 session of the Legislature to allow the sale of strong beer by the private sector. Now, the public and private sectors compete for the same wine and beer sales. The friction is caused by the price advantage enjoyed by the Board. State liquor laws require that wholesale and retail liquor sales be conducted by separate firms. Thus, the Board's advantage is the result of the double markup price that must be passed on to the consumer by the private sector. The Board has to mark up liquor only once.

Due to the fact that the wine wholesalers must pay the state wine tax by the tenth of each month, they choose to treat the tax as an acquisition cost and add it to their cost of the wine prior to applying their wholesale markup. The wine is then marked up again by the wine retailers.

The following is a general example of the effect of this pricing mechanism:

Wine Markup Comparison  
Public vs. Private  
(one liter bottle)

<u>Commercial</u>		<u>Liquor Control Board</u>	
Landed Price	\$ 1.00	Landed Price	\$ 1.00
Liter Tax	+ .2025	Markup	X 45.9%
Markup Base	1.2025	Base Price	\$ 1.4590
Wholesale Markup	X 35%	Liter Tax	X .2025
Wholesale Price	\$ 1.6233	Retail Price	\$ 1.6615
Retail Markup	X 35%	General Sales Tax	X 5.4%
Retail Price	\$ 2.1915		\$ 1.7512
General Sales Tax	X 5.4%		
Consumer Cost	\$ 2.3090		
Differential	+ .5578 cents per liter or 31.85 percent		

Notwithstanding this 31.9 percent price advantage or the captive "hard liquor" market enjoyed by the state liquor stores, the public continues to increase its wine purchases at private retail outlets.

The private sector now sells over 82 percent of the wine and over 99.5 percent of the beer sold in this state.

Industry's answer to the pricing problem has been the elimination of the State Liquor Control Board's authority to sell beer or wine. They claim that the Board sells wine at a loss in order to undercut commercial wine prices. To prove their argument, they point to the fact that the Board reduced its markup on wine from 53.6 percent to 45.9 percent in 1974.

The Board claims that the state made a profit of \$2.2 million from wine sales in 1981, and it has documentation certifying that its cost accounting procedures are correct. It is not clear who is right. The Board's method of allocating wine costs seems sound, but a closer examination is required before any conclusions are reached. The Legislative Budget Committee has also investigated this issue recently. A final draft of the Committee's report is included in this report as Appendix H.

It is also pointed out that over 500,000 wine buyers choose to purchase their wine from a state liquor store because of the lower



prices and the convenience of purchasing wine at the same time as they buy hard liquor.

A recent policy shift by the State Liquor Control Board and legislation adopted during the 1982 legislative session may alleviate the beer and wine pricing problem to a considerable extent.

Effective July 1, 1982, the State Liquor Control Board quietly increased its markup rates on beer and wine. In addition, the 1982 Legislature amended state liquor statutes to allow both domestic and out-of-state wineries to wholesale wine. Beer manufacturers have been allowed to wholesale beer for some time.

The Liquor Control Board adjusted its markups for wine and beer from 45.9 percent to 60 and 70 percent respectively. These higher markups plus the added industry flexibility to reduce its costs should reduce price disparity, increase competition, and reduce public/private sector friction in this area. The Board can continue to sell beer and wine as a convenience. However, it is anticipated that the Board's share of the beer and wine market will deteriorate as price competition is strengthened and encouraged.

Legislation to eliminate the sale of beer and wine by state liquor stores failed to pass during the 1982 session. Time should be allowed to monitor wine and beer pricing to determine whether competitive pricing has been achieved.

In addition to wine and beer pricing, there are other disagreements with Liquor Control Board policies regarding beer and wine regulatory practices. A list of primary concerns is included in this report as Appendix G. The Board should address these concerns and work with the industry on proposed amendments to the state liquor statutes that are directed toward the further reduction of liquor regulatory friction in general, and wine and beer price disparity in particular.

Unequal Distribution of Liquor Revenues - The original state liquor control statutes required that state liquor profits be shared on a 50-50 basis with local governments.

Since 1933, the state legislature has added and incrementally increased special liquor sales taxes. These special sales taxes have increased to the point where over 57 percent of liquor revenues are generated by liquor sales taxes. Of the \$938 million in liquor revenues distributed between FY 1971 to FY 1980, over 70 percent were deposited in the state general fund while the cities received over 22 percent and the counties 5.5 percent.

The state should study the possible realignment of the distribution of liquor revenues between state and local governments, keeping the original 50-50 split in mind.

The distribution formula used to calculate the split of liquor revenues between cities and counties should also be reviewed with consideration of a formula more reflective of recent population shifts between incorporated and unincorporated areas.

Challenge to the State's Role in Retail Liquor Sales - The primary purpose of this study is to gather information for the determination of the state's role in retail liquor sales.

Over the past decade, businesses, primarily the major food store chains, have been unhappy because they cannot sell hard liquor in privately operated retail food stores.

These interests are proud of the fact that the United States has the most efficient food distribution system in the world. Food is grown on the farm and distributed to the consumer in a more efficient manner and at lower prices than in any other country in the world. Food retailers believe that they can also do a better job of distributing liquor. They point to their success with the sale of wine (over 82 percent of the market in spite of their higher prices) to prove it. It should be noted that the private sector operates over 93 percent of the retail outlets licensed for off premises consumption.

In brief, the retailers believe that they can sell more spirits, more efficiently at the same prices as the state operated system and make a profit doing it.

The drive to divest the state of retail liquor sales has continued throughout the 1970s. A referendum and several initiatives have failed to obtain enough votes or signatures during the decade. Now, the food retailers are trying the legislative process.

This seems to be a national phenomenon, with several states considering the question of their role in retail liquor sales. However, as of this date, not one liquor control state has converted to a free enterprise system.

Although the revenues the state actually receives from liquor sales profits (one-half of one percent of total general fund receipts or 18.2 million in FY 1980) is relatively small, there are major problems associated with free enterprise liquor sales.

The remaining sections of this report will deal with the fiscal impacts of various alternative approaches to liquor control and review the social problems associated with public consumption of alcoholic beverages.

## V. FINANCIAL COMPARISON OF THE FREE ENTERPRISE SYSTEM WITH THE PRESENT STATE LIQUOR CONTROL SYSTEM

### Approach

There are several possible alternatives to our present liquor control system. The alternatives range from reduced retail sales control to the complete withdrawal from liquor merchandising by the State Liquor Control Board.

Several of the more practical possibilities are briefly described as follows:

Agency System. All state liquor stores would be converted to agencies and operated on a commission basis by private enterprise managers similar to the present Oregon system.

Dual Retail Sales System. Private individuals and organizations would be licensed to operate retail liquor stores in direct competition with state operated liquor stores. This approach is similar to the present wine and beer sales situation in the state.

State Wholesale System. The State Liquor Control Board would be required to close all state operated retail stores and agencies. Privately operated retail liquor stores would be licensed to compete in the open market, but would be required to buy all spirits from the state liquor warehouse. Licensees who sell liquor by the drink could buy their liquor from either the state liquor warehouse or private retail outlets at the same discount. This system would be similar to the present Wyoming system.

Licensed Control or Free Enterprise System. The State Liquor Control Board would be required to completely withdraw from liquor merchandising activities within two years of the effective date of enabling legislation. State liquor inventories would be liquidated together with the state liquor warehouse and store equipment. Individuals and/or organizations would be licensed by the State Liquor Control Board to wholesale or retail liquor on a free market basis. Market forces would determine prices and the number of licensees required.

It was the original intent of this study to identify as many alternative approaches to liquor control as possible and to analyze and compare each alternative using the present system as the base. However, in order to conserve resources and to complete the study in a timely manner, it was decided to examine only the free enterprise alternative at this time.

As discussed earlier, there has been a movement during recent years to require the state to completely divest itself of both its wholesale and retail liquor merchandising operations. Therefore, it is most urgent to give the free enterprise system alternative primary consideration.

### Free Enterprise vs. Present Control System

Free enterprise liquor control is practiced in some form in all but eighteen states. Under this alternative, the State Liquor Control Board would be required to phase out both its wholesale and retail liquor operations within a two year period.

The Board would be required to issue either a retail or a wholesale liquor sales license to those parties that meet strict criteria. However, there would be no limit to the number of licenses issued. State operated retail liquor stores would be phased out as soon as practical. All state liquor inventories would be liquidated and the state liquor warehouse and store equipment would be sold. Market forces would completely govern the sales and consumption of alcoholic beverages in Washington State. The State Liquor Control Board would be limited to the regulatory functions described in the preceding section of this report.

In order to compare the free enterprise system to the present state control system, an estimate of the Board's potential liquor profits and revenues for the period FY 1981 through FY 1989 has been developed. In addition, an estimating model was developed to calculate the potential liquor tax revenues that might be generated under the free enterprise system.

The present system baseline estimate and an estimate of free enterprise system revenues are then compared to determine the fiscal impact on both state and local governments. Potential state alcohol consumption figures are analyzed and compared with alcohol consumption in other states.



### Projections of Profits and Taxes Under the Present Liquor Control System

In order to establish a baseline for comparison of liquor control alternatives, it was necessary to estimate the potential State Liquor Control Board profits and revenues during the 1980s decade. As a first step, it was necessary to project liquor sales for the period.

Table 31 presents a projection of the Board's potential alcoholic beverage sales through FY 1989. The total gallon sales projected for the Board is broken down by beverage type with both spirits and wine based on past consumption patterns and the growth of the state's adult population forecasted for the 1980s decade. Beer sales are based on the Board's expectations for "strong beer" consumption over the same period before the 1982 legislative decision to allow the sale of "strong beer" by private stores.

Table 32 illustrates the projections of per capita consumption of liquor used to calculate the number of gallons sold during the period.

It must be noted that Table 31 indicates that spirits sales are projected to grow at about the same rate as the adult population. Wine sales will grow at over twice the rate as spirits sales. Beer sales are projected to grow at a much faster rate than spirits or wine but much slower than the Board's beer sales during the 1970's. However, beer sales are projected to jump from 3.9 percent of Board sales in FY 1980 to 8.7 percent by FY 1989.

The methodology used to develop the projections presented in both Table 31 and 32 is described in Appendix B to this report.

In brief, a procedure was used that reflects the change in per capita consumption of spirits between FY 1971 and FY 1980 and allows for the annual increase in forecasted adult population between FY 1980 and FY 1989. A slight variance in the procedure was used for the wine per capita consumption projection. The first half of the 1970s decade per capita consumption of wine varied widely. Therefore, only the last half period (FY 1975 - FY 1980) was used as the base for the projection. As a result, the per capita consumption of spirits is projected to vary only slightly while wine consumption is projected to grow substantially (4.51 gallons per capita in FY 1980 to 6.22 gallons per capita in 1989) during the period.

The sales projection for beer is an independent projection developed by the WSLCB based on its own expectations of "strong beer" (over 4.0 percent alcohol content) sales during the 1980s. It should be noted that the projection was developed by the WSLCB before the decision by the 1982 legislature to allow the sale of "strong beer" by private retail stores.

All three (spirits, wine, and beer) sales projections presented in Table 31 are used as the base for the calculation of annual estimates of the Board's potential profits and liquor tax collections for the period FY 1981 - FY 1989.

TABLE 31

Washington State Liquor Control Board  
Projections of Liquor Sales  
by Type of Beverage  
FY 1981 - FY 1989  
(in Gallons)

<u>Fiscal Year</u>	<u>Spirits</u>	<u>Wine</u>	<u>Strong Beer*</u>	<u>Total</u>
1981	8,709,517	2,488,901	527,540	11,725,958
1982	9,028,417	2,612,991	613,687	12,255,095
1983	9,305,606	2,792,228	704,697	12,802,581
1984	9,568,903	2,974,914	804,694	13,348,511
1985	9,823,367	3,155,540	912,201	13,891,108
1986	10,063,395	3,329,941	1,024,128	14,380,464
1987	10,291,849	3,505,418	1,141,288	14,938,555
1988	10,512,069	3,672,479	1,264,541	15,449,095
1989	10,728,179	3,839,528	1,395,933	15,963,640
FY 1981-1989				
Percent				
Growth	23%	54%	165%	36%

Source: Appendix B

\*Independent Projection by WSLCB before the 1982 legislative decision to allow the sale of "strong beer" by private retail stores.

**TABLE 32**

**Washington State Projections of  
Apparent Liquor Consumption  
by Type  
FY 1981 - FY 1989  
(Gallons per Capita)**

Fiscal Year	Adult Population*	Apparent Adult Annual Per Capita Consumption			
		Spirits	Wine	Beer	Total
1981	2,837,601	3.08	4.74	36.65	44.51
1982	2,923,908	3.09	4.96	37.11	45.17
1983	3,004,014	3.09	5.16	37.55	45.81
1984	3,082,646	3.10	5.36	37.98	46.44
1985	3,158,357	3.11	5.55	38.38	47.05
1986	3,229,522	3.11	5.72	38.77	47.60
1987	3,297,026	3.12	5.90	39.13	48.16
1988	3,361,894	3.12	6.06	39.48	48.68
1989	3,425,355	3.13	6.22	39.83	49.19
FY 1981-1989					
Percent					
Growth	21%	1%	31%	9%	10%

Source: Appendix B

\*OFM Forecast

The detailed estimates are presented in Appendix C of this report together with the procedure used to calculate the estimates. Table 33 summarizes the estimated annual liquor profits and taxes for the period between FY 1981 and FY 1989.

Under the present liquor control system, potential liquor profits and taxes generated by the Board are estimated to total more than \$1.6 billion or average about \$178 million per year during the projection period. These figures include the potential profits to be generated by the Board's merchandising and enforcement divisions but do not include the holding back of working capital on the last month of each fiscal year. The annual working capital figures listed in Table 6, Appendix C must be deducted from net merchandising profits each year in order to determine the actual amount to be distributed to state and local governments.

TABLE 33

Washington State Liquor Control Board  
Projections of Liquor Taxes and Profits  
FY 1981 - FY 1989  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Total Taxes</u>	<u>Total Profits</u>	<u>Total Revenues</u>
1981*	\$ 73.6	\$ 53.5	\$ 127.1
1982	90.2	64.1	154.3
1983	94.6	68.0	162.6
1984	99.0	72.4	171.4
1985	103.6	76.7	180.3
1986	108.1	80.9	189.0
1987	112.8	85.2	198.0
1988	117.6	89.7	207.3
1989	122.5	94.3	216.8
Total	\$922.0	\$684.8	\$1,606.8
FY 1981-1989 Percent Growth	66%	76%	70%

\*1981 Actuals

Source: Appendix C

TABLE 34

Washington State Liquor Control Board  
Summary Comparison of Present Control vs.  
Free Enterprise System - Potential Revenues  
FY 1981 - FY 1989  
(Millions of Dollars)

<u>Total Revenues</u>					
<u>Fiscal Year</u>	<u>Present System</u>	<u>Free Enterprise*</u> <u>System</u>	<u>Difference</u>	<u>Percent Decrease</u>	<u>Necessary** Percent Increase</u>
1981	\$110.4	\$ 84.8	(\$25.5)	23.11%	31.09%
1982	130.4	104.3	(26.1)	20.01	25.78
1983	137.8	109.2	(28.5)	20.53	26.93
1984	145.0	114.3	(30.7)	21.16	27.73
1985	152.6	119.1	(33.4)	21.92	28.96
1986	160.4	124.5	(35.8)	22.34	29.83
1987	167.4	130.0	(37.4)	22.35	29.91
1988	175.0	135.3	(39.7)	22.69	30.59
1989	183.0	140.9	(42.0)	22.99	31.21

Source: Appendix E, Table 1

\*Based on same net sales base as present control system

\*\*Increase in spirit taxes (liter tax, 10-15% sales tax and B&O taxes)  
required to make up revenue differences



### Financial Comparison of Present System to the Free Enterprise System Alternative

Table 34 indicates the differences in liquor revenue potential when the present liquor control system is compared with the free enterprise system.

Table 34 indicates that, when using the same sales projections for a base, the free enterprise system would generate between 20 and 23 percent less revenues each year during the comparison period. Table 35 indicates that the largest portion of the loss of revenues would be experienced by local governments. The reason for this lopsided result is the nature of the state's procedure for distributing liquor revenues to state and local governments. Local governments get half of all liquor profits, but only 13 percent of all the liquor sales taxes collected. However, under the free enterprise system the Board's liquor profits are completely eliminated.

The step by step method used to calculate the annual revenues generated by the free enterprise system are described in Appendix D and the annual estimates are summarized in Appendix E.

In calculating the comparative differences between the two systems, the approach used assumes that liquor consumption would be the same under both systems and that the private wholesalers and retailers would have to pay the same price for liquor as the WSLCB does under the present system. The approach also assumes that the wholesale and retail markup for spirits would be 20 percent and the wholesale and retail markup for beer and wine would be 35 percent.

The beer and wine markups were determined from present price postings by state wholesalers and retailers. However, the markups for spirits are not known. The 20 percent markup rate used in this comparison was obtained from other free enterprise states, such as California. Washington's present liquor tax structure is also used for this comparison.

The object of this comparison is to determine whether the liquor related taxes generated under the free enterprise control system can match the profits and taxes generated under the present liquor control system based on the assumptions listed above.

Liquor related taxes include the special sales taxes on spirits and beer, increases in the general sales tax revenues on wine sales, increases in state and local business and occupation tax revenues created by increased private sector activity, and the increases in revenue from liquor license fees as a result of the many more retail liquor outlets to be authorized under the free enterprise system.

Can the license system match the revenue generating capacity of the present system? The answer is no when the comparison is based on the same set of assumptions and sales projections.

As illustrated by Table 34, the free enterprise system would generate much less revenue than the present system at the same level of consumption. In fact, the licensed system would require increases in the spirits related taxes (the liter tax, the 10 and 15 percent sales tax, and the B&O taxes) of

**TABLE 35**

Washington State Liquor Control Board  
Summary Comparison of Present Control vs.  
Free Enterprise System - Potential Revenues  
State and Local Governments  
FY 1981 - FY 1989

<u>State's Share of Revenues</u>					
<u>Fiscal Year</u>	<u>Present System</u>	<u>Free Enterprise*</u>	<u>Difference</u>	<u>Percent Decrease</u>	<u>Necessary** Percent Increase</u>
1981	\$ 81.9	\$ 71.1	(\$10.8)	13.23%	15.70%
1982	99.4	88.7	(10.6)	10.71	12.30
1983	104.4	92.6	(11.7)	11.28	13.02
1984	109.3	96.7	(12.5)	11.81	13.38
1985	114.4	100.6	(13.8)	12.09	14.15
1986	119.6	104.8	(14.7)	12.36	14.58
1987	124.4	109.0	(15.3)	12.37	14.64
1988	129.5	113.0	(16.4)	12.68	15.09
1989	134.8	117.3	(17.4)	12.93	15.48

<u>Local Government's Share of Revenues</u>					
1981	\$ 28.4	\$ 13.7	(\$14.7)	51.54%	113.22%
1982	31.0	15.5	(15.5)	49.79	104.93
1983	33.4	16.6	(16.7)	50.22	106.79
1984	35.7	17.6	(18.1)	51.71	108.50
1985	38.1	18.5	(19.6)	51.28	110.11
1986	40.8	19.7	(21.0)	51.61	112.34
1987	43.0	21.0	(22.0)	51.18	110.62
1988	45.5	22.2	(23.3)	51.15	110.89
1989	48.2	23.5	(24.6)	51.09	110.75

Source: Appendix E, Table 2

\*Based on same net sales base as present control system

\*\*Increase in spirit taxes (liter tax 10-15% sales taxes and B&O taxes) required to make up revenue differences

between 25 and 31 percent to match the revenues generated by the present system.

Alternatively, state revenues could be maintained through increased consumption rates. Table 36 indicates that the annual per capita consumption of spirits would have to increase nearly one full gallon per capita per year in order to generate enough liquor related revenues to make up the revenue gap in FY 1989. The estimated increase in gallons of spirits sold required to make up the revenue difference ranges from 25.2 percent in FY 1982 to 31.2 percent in FY 1989.

Due to the large increase in the number of liquor retail outlets, (354 in 1980 to approximately 1600 in 1985), it can be assumed that the free enterprise system would sell more liquor than the present system. However, due to higher prices, it is doubtful that the free enterprise system can sell enough liquor to make up the revenue gap as presented in this report (Table 34) without a concomitant tax increase.

Table 37 illustrates the dilemma. Using the same delivered costs as the private sector and the 20 percent markup rate for both the wholesale and retail sales, a bottle of spirits would generally cost the consumer at least ten percent more when sold by the free enterprise system.

The higher prices would inhibit liquor consumption enough to make it extremely difficult, at least in the near future, to raise consumption to the level to match the revenue generation capacity of the present system.

TABLE 36

Washington State Liquor Control.  
Increased Per Capita Consumption Necessary  
to Make up Revenue Difference  
Control vs. Free Enterprise System  
FY 1981 - FY 1989

Fiscal Year	Adult Population	Projected Spirit Sales (Gallons)	Estimated* Percent Increase	Free Enterprise** Spirit Sales (Gallons)	Projected Per Capita Consumption	Free Enterprise*** Per Capita Consumption
1981	2,837,601	8,751,711	31.09	11,472,617	3.0841	4.0430
1982	2,923,908	9,028,417	25.75	11,353,234	3.0912	3.8828
1983	3,004,014	9,305,606	26.93	11,811,605	3.0977	3.9319
1984	3,082,646	9,568,903	27.73	12,222,359	3.1041	3.9648
1985	3,158,357	9,823,367	28.96	12,668,214	3.1110	4.0110
1986	3,229,522	10,063,395	29.83	13,065,305	3.1116	4.0455
1987	3,297,026	10,291,849	29.91	13,370,141	3.1215	4.0552
1988	3,361,894	10,512,069	30.59	13,727,710	3.1268	4.0833
1989	3,425,355	10,728,179	31.21	14,076,443	3.1319	4.1094

\*Estimate percentage increase required to make up revenue difference between systems.

\*\*Spirit gallonage sales required to make up revenue difference between systems.

\*\*\*Free enterprise per capita consumption calculated from adult population forecast and free enterprise gallonage sold.

Source: Appendix E

TABLE 37

Washington State Liquor Control  
Average Price of a Bottle of Spirits  
Present System vs. Free Enterprise System  
(Based on Average Priced 750 ML - July 1, 1981)

	<u>Control System</u>	<u>FreeEnterprise System</u>
Delivered Costs	\$3.430	\$3.430
WSLCB Markup 45.9%	1.574	
15% Sales Tax	.751	
\$1.72 Liter Tax	1.290	1.290
Wholesale Markup 20%		.944
Retail Markup 20%		1.133
15% Sales Tax		1.020
Total Price to Consumer	\$7.045	\$7.817
Revenue:		
Net Profits*	.894	
Sales Taxes	2.041	2.310
Other Taxes Payable		.050
Total Revenues/Bottle	\$2.935	\$2.360

\*\$.68 operating expenses deducted from markup

Source: OFM

### Fiscal Impact of the Free Enterprise System Alternative

Assuming that legislation establishing a free enterprise liquor system passed during the 1983 session, it would be reasonable to allow the WSLCB time to prepare for the conversion.

Figure 7 illustrates a possible conversion sequence chart and time table.

The Board would be authorized to initiate the processing and issuing of wholesale and retail liquor licenses on January 1, 1984, in preparation for the initiation of the free enterprise system on July 1, 1984.

All Board liquor merchandising operations would be phased out by December 31, 1984, and it would be required that all of the remaining liquor inventory and the Seattle warehouse be sold by June 30, 1985.

Based on this time schedule, Table 38 illustrates the potential fiscal impact of a conversion on both state and local governments.

In FY 1985, there would be a one time only revenue gain of approximately \$34 million that would be derived from the sale of liquor inventories and the warehouse. For the purposes of analyzing the fiscal impact of the conversion, it is assumed that this one time only revenue source would be deposited in the liquor revolving fund and then distributed to the state general fund and liquor excise fund on a fifty-fifty basis during FY 1985.

Assuming that the private sector could sell enough liquor during its first full year of operation to equal the projected sales of the present system, the potential loss of \$33.5 million would be more than off-set by the revenues received from the sale of inventories and the state liquor warehouse. However, in the four remaining years of the 1980s decade, the state would receive approximately \$64.2 million less while local governments would receive \$91.1 million less than under the present system using the same consumption rates per capita.

At the state level, the biennial losses would be:

1983 - 1985	\$ 3.2
1985 - 1987	(\$30.2)
1987 - 1989	(\$34.0)

Local governments would lose a potential revenue share ranging from approximately \$21 million in FY 1985 to \$24.7 million in FY 1989. However, it should be noted that state loss of liquor revenues would amount to a very small percentage of the total general fund receipts over the five year period while local government's loss could amount to two to three percent of the total revenues received by local governments each year.



Figure 7

Washington State Liquor Control  
Conversion from Present System to  
a Free Enterprise System  
June 30, 1985  
Conversion Sequence Schedule

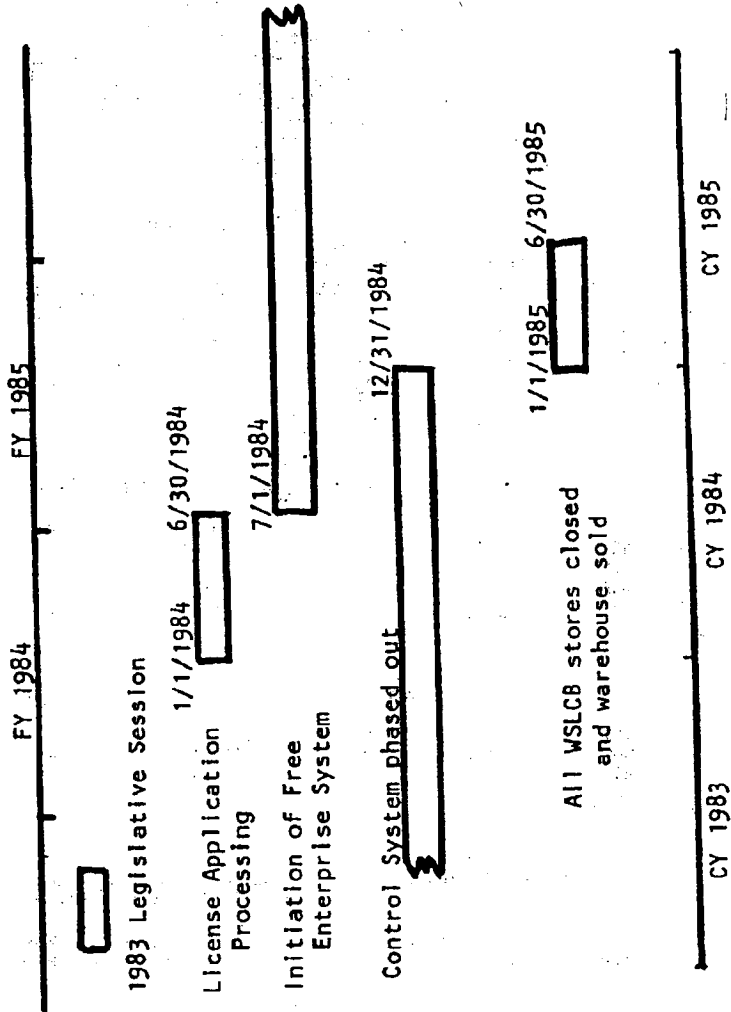


TABLE 38

Washington State Liquor Control  
 Conversion from Present Control System to  
 Free Enterprise System - June 30, 1985  
 Summary of Fiscal Impact of Conversion  
 on State and Local Governments  
 FY 1985 - FY 1989  
 (Revenues in Millions of Dollars)

Fiscal Year	Present System	Total Revenues			Inventory	+ (-) Net Difference
		Free Enterprise System	+ (-) Difference	Warehouse		
1985	\$152.6	\$119.1	(\$33.5)	\$ 9.0	\$ 25.0	\$ .5**
1986	160.4	124.5	(35.9)	-	-	(35.9)
1987	167.4	130.0	(37.4)	-	-	(37.4)
1988	175.0	135.3	(39.7)	-	-	(39.7)
1989	183.0	140.9	(42.1)	-	-	(42.1)

State's Share of Liquor Revenues*						
1985	\$114.4	\$100.6	(\$13.8)	\$ 4.5	\$ 12.5	\$ 3.2**
1986	119.6	104.8	(14.8)	-	-	(14.8)
1987	124.4	109.0	(15.4)	-	-	(15.4)
1988	129.5	113.0	(16.5)	-	-	(16.5)
1989	134.8	117.3	(17.5)	-	-	(17.5)

Local Governments Share of Liquor Revenues*						
1985	\$ 38.1	\$ 18.5	(\$19.6)	\$ 4.5	\$ 12.5	(\$ 2.6)**
1986	40.8	19.7	(21.1)	-	-	(21.1)
1987	43.0	21.0	(22.0)	-	-	(22.0)
1988	45.5	22.2	(23.3)	-	-	(23.3)
1989	48.2	23.5	(24.7)	-	-	(24.7)

\*Assumes that the moneys received from the sale of the state liquor warehouse and liquor inventories is distributed on a 50-50 bases to state and local governments.

\*\*FY 1985 revenues could be reduced by an additional \$10.0 million as a result of employee annual leave and potential unemployment insurance fund payments by the Board.

### Potential for Increased Liquor Consumption

It is generally accepted that liquor consumption under a free enterprise liquor system would increase. The operating style of a free enterprise liquor system would be similar to the present California liquor control system.

Any food retailer who holds a license to sell beer or wine would be entitled to a license to sell spirits. Spirits would be prominently displayed in food stores and promoted to the extent possible under the law. Large retail food stores would provide their own brands, conduct specials, and try to control prices as much as possible. Spirits would become a convenience item and consumption would increase.

It is difficult to estimate how much consumption would increase. Nevertheless, it is clear that the free enterprise system would result in increased liquor consumption, decreased revenues and higher liquor prices.

Figure 8 compares the per capita consumption levels under consideration.

Historically, Washington's per capita consumption of spirits has remained stable at the three gallons per adult per year since 1970. Consumption is projected to remain at the three gallon per capita level through the 1980s under the state's present liquor control system.

As depicted by Figure 8, the consumption of spirits would have to increase by almost one additional gallon per capita (a one-third increase) under the free enterprise system in order to match the revenue loss resulting from the conversion. However, it is doubtful that an increase in consumption of this magnitude could be accomplished, at least immediately.

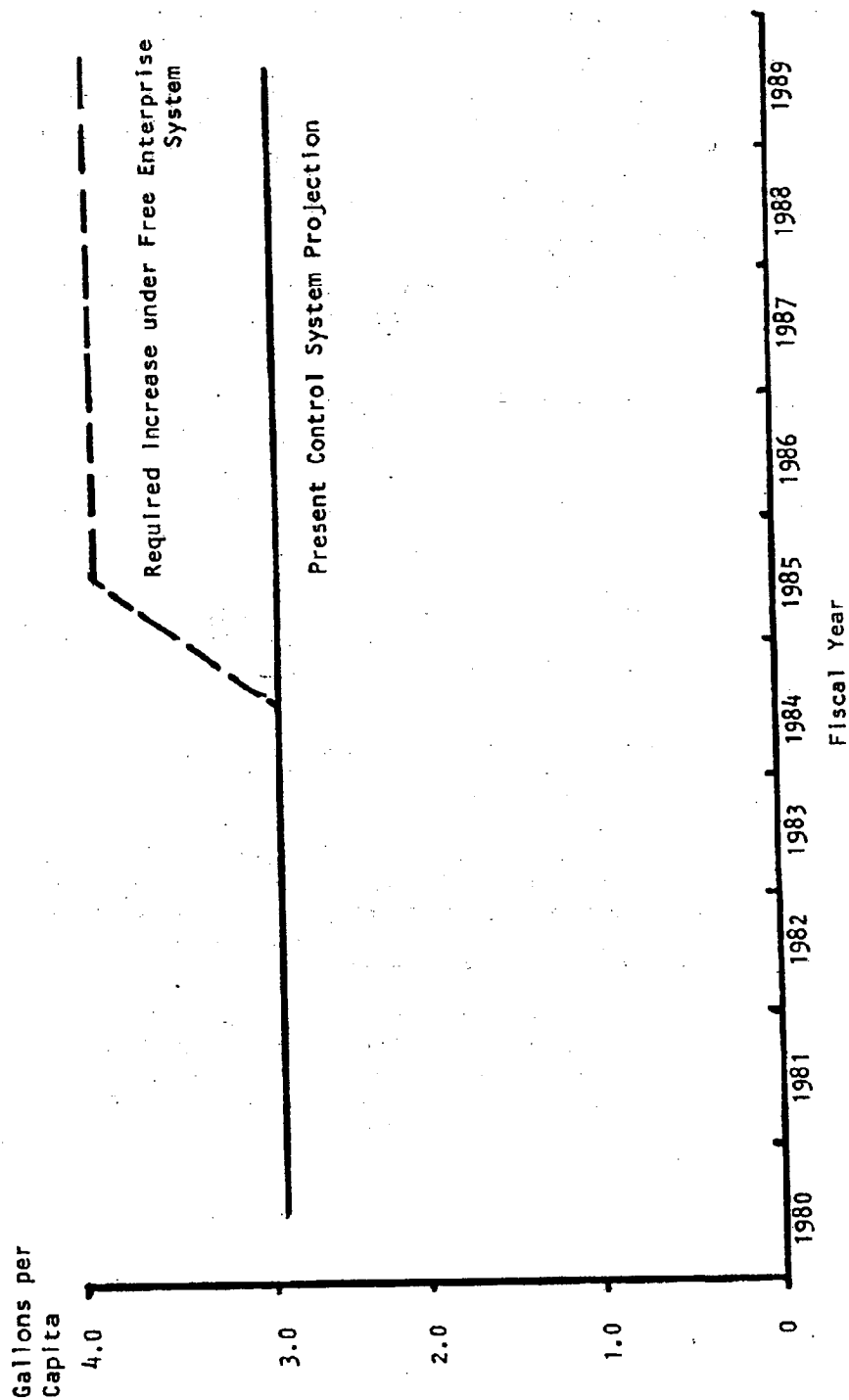
The information provided on Tables 39 and 40 is provided so that a comparison can be made of liquor consumption in free enterprise vs. control states.

Table 39 indicates that Washington ranked in the middle of the twelve Western States in per capita consumption of spirits in 1979. However, Washington is the top ranking control state as Wyoming controls liquor at the wholesale level only. In order to match the revenue loss created by a system conversion, Washington would have to rank near the top of the list.

Table 40 indicates that Washington ranks 27th in the consumption of spirits among the 50 states in 1979. However, Washington ranked fifth among all the control states. As a comparison, Washington would have to rank among the top twelve of the fifty states in order to match the revenue loss resulting from conversion to a free enterprise liquor system.

Figure 8

Washington State Liquor Control  
 Comparison of Apparent per Capita Consumption of Spirits\*  
 Consumption Projection under Present Liquor Control System vs.  
 Consumption Required under Free Enterprise System  
 Necessary to Match Projected Revenues  
 FY 1980 - FY 1989



\*Adult Population (21 Years and over)

TABLE 39

Apparent Adult  
Per Capita Consumption of Spirits  
- 1979 -  
Ranking of 12 Western States  
(Gallons per Person over 21)

<u>State</u>	<u>Adult Per Capita Consumption</u>	<u>Type of Liquor Control System</u>
Alaska	5.02	Free Enterprise
Hawaii	4.44	Free Enterprise
Wyoming	3.84	Control*
Colorado	3.81	Free Enterprise
California	3.73	Free Enterprise
Arizona	3.50	Free Enterprise
Washington	3.10	Control
Montana	3.04	Control
Oregon	2.76	Control
New Mexico	2.70	Free Enterprise
Idaho	2.34	Control
Utah	1.84	Control
Average Total	3.34	
Average Less Alaska and Hawaii	3.070	

\*The state of Wyoming controls only the wholesale sales of liquor.  
Retail stores are privately owned and operated.

Source: Brewers Almanac - 1980

TABLE 40

Apparent Adult  
Per Capita Consumption of Spirits  
- 1979 -  
Ranking of 50 States and  
District of Columbia  
(Gallons per Person over 21)

State	Adult Per Capita Consumption	Type of Liquor Control System	State	Adult Per Capita Consumption	Type of Liquor Control System
1. Nevada	9.65	Free Enterprise	26. New Jersey	3.18	Free Enterprise
2. District of Columbia	8.81	Free Enterprise	27. Washington	3.10	Control
3. New Hampshire	7.64	Control	28. South Dakota	3.09	Free Enterprise
4. Alaska	5.02	Free Enterprise	29. Michigan	3.04	Control
5. Vermont	4.45	Control	30. Montana	3.04	Control
6. Florida	4.41	Free Enterprise	31. Oregon	2.76	Control
7. Hawaii	4.44	Free Enterprise	32. Mississippi	2.71	Control
8. Maryland	4.03	Free Enterprise	33. New Mexico	2.70	Free Enterprise
9. Delaware	3.90	Free Enterprise	34. Virginia	2.68	Control
10. Wyoming	3.84	Control	35. Nebraska	2.60	Free Enterprise
11. Colorado	3.81	Free Enterprise	36. N. Carolina	2.58	Control
12. California	3.73	Free Enterprise	37. Texas	2.56	Free Enterprise
13. Wisconsin	3.66	Free Enterprise	38. Alabama	2.46	Control
14. Massachusetts	3.62	Free Enterprise	39. Idaho	2.34	Control
15. S. Carolina	3.52	Free Enterprise	40. Indiana	2.34	Free Enterprise
16. Arizona	3.50	Free Enterprise	41. Missouri	2.28	Free Enterprise
17. Connecticut	3.47	Free Enterprise	42. Kentucky	2.26	Free Enterprise
18. Georgia	3.46	Free Enterprise	43. W. Virginia	2.22	Control
19. Illinois	3.43	Free Enterprise	44. Ohio	2.15	Control
20. Minnesota	3.43	Free Enterprise	45. Tennessee	2.12	Free Enterprise
21. New York	3.78	Free Enterprise	46. Pennsylvania	2.11	Control
22. N. Dakota	3.31	Free Enterprise	47. Oklahoma	2.09	Free Enterprise
23. Rhode Island	3.23	Free Enterprise	48. Kansas	2.09	Free Enterprise
24. Louisiana	3.23	Free Enterprise	49. Iowa	2.08	Control
25. Maine	3.18	Control	50. Utah	1.84	Control
			51. Arkansas	1.67	Free Enterprise

Source: Brewers Almanac - 1980



## VI. OTHER CONSIDERATIONS

### Public Health, Safety, and Crime

The conversion of our present liquor control system to a free enterprise system would no doubt make alcoholic beverages, particularly hard liquor, more available to the general public. Consumption would be stimulated and more alcohol would be sold.

While it cannot be predicted with any precision what the effects of increased consumption would be, there is reason to believe that increased consumption would be followed by increased deaths, accidents and sickness from alcohol related causes. Moderate drinkers would drink more. Heavy drinkers would drink more and there would be more younger drinkers.

Table 41 presents information obtained from the National Center for Health Statistics regarding deaths due to alcohol related causes in the 12 western states in 1978. Although the information is several years old and references only one year, it does provide an indication of the differences in the number of deaths between controlled and free enterprise states.

Washington ranks next to the bottom in alcohol related deaths among the twelve western states listed. The lowest ranking state, Idaho, has a liquor control system very similar to that of Washington State. The six highest ranked states all have a free enterprise retail liquor system. Wyoming, unlike the other control states, handles only the wholesale distribution of alcoholic beverages. However, such beverages are sold to the consumer through private retail stores just as is done in the other free enterprise states listed.

The social risks involved with alcohol consumption can be divided into three major categories: (1) the effect of heavy alcohol consumption on personal health; (2) increased public safety hazards; and (3) the possibility of increased alcohol related crime and criminal infiltration of the state's liquor industry under the free enterprise system.

The balance of this section represents a brief discussion of the categories listed above.

TABLE 41

Reported Deaths Due to  
Selected Alcohol Related Causes  
- 1978 -

Ranking of 12 Western States  
(Computed as a Percentage of all Deaths Reported)

<u>State</u>	<u>Percent</u>	<u>Type of Control</u> <u>Control System</u>
Alaska	3.64	Free Enterprise
Nevada	2.97	Free Enterprise
New Mexico	2.76	Free Enterprise
California	1.72	Free Enterprise
Wyoming	1.65	Control*
Arizona	1.53	Free Enterprise
Utah	1.39	Control
Montana	1.31	Control
Oregon	1.29	Control
Colorado	1.12	Free Enterprise
Washington	1.08	Control
Idaho	1.04	Control

\*Control at wholesale level only

Source: National Center for Health Statistics  
Mortality Statistics Branch

Selected causes are: Alcoholic Psychosis, Alcoholism, Cirrhosis of  
the Liver, and Accidental Poisoning by Alcohol

### Adverse Health Effects of Alcohol Use

In November 1980, the United States Departments of Treasury and Health and Human Services combined to issue an interagency report\* on the health hazards associated with alcohol consumption.

A data survey associated with the report suggests that about one- third of the adult population consumes four or more drinks per week. A portion of this third, possibly as high as 30 percent, are considered to be problem drinkers or alcoholics. The remaining two- thirds of the adult population are very light drinkers or abstainers.

The report also states that alcohol is not a product with properties similar to those commonly found on a grocer's shelves. It is a drug that produces mental as well as physical changes which influence an individual's social behavior. Some of the health risks listed in the report are:

1. Birth Defects and Abnormalities - Fetal Alcohol Syndrome (FAS) has been identified among children of alcoholic women. It is characterized by central nervous system disorders, growth deficiencies, and other malformations, particularly skeletal, urogenital, and cardiac. FAS is also suspected to be one of the leading causes of birth defects associated with mental retardation.
2. Gastro Intestinal System Diseases - Alcohol misuse has a potentially detrimental effect on the body from its point of entry at the mouth through the entire gastrointestinal tract and related organs such as the liver and the pancreas. The liver is often seriously damaged by chronic alcoholism, the most common disorders being hepatitis and cirrhosis.
3. Central Nervous System Disorders - Central nervous system dysfunction has been estimated to be present in 50-70 percent of alcoholics entering treatment.
4. Depression and Suicide - There is a direct association between alcoholism and depression in both men and women. Compared to the general population, a disproportionately high number of people with drinking problems commit suicide.
5. Deterioration of the Cardiovascular System - Heavy drinking has been associated with a number of adverse effects on the cardiovascular system, including a specific deterioration of the heart muscle, diminished output, and decreased contractibility of the heart muscle.

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\*Report to the President and the Congress on Health Hazards Associated with Alcohol and Methods to Inform the General Public of these Hazards - U.S. Departments of Treasury and Health and Human Services, November 1980.

6. **Nutritional Deficiencies** - Alcohol abuse contributes to nutritional deficiency and has been suggested as the most common cause of vitamin and trace element deficiency in adults.
7. **Increased Possibility of Cancer** - Heavy drinking also increases the risk of developing cancer of the tongue, mouth, esophagus, larynx, and liver.
8. **Increased Susceptibility to Infectious Diseases** - Pneumonia is a frequent cause of illness and death for alcohol abusers. The neglect of nutrition, impairment of lung clearance, and decreased immune response mechanisms make alcohol abusers prone to respiratory infection.  
  
Tuberculosis also appears more frequently among alcoholics. Since many alcoholics often work as food handlers and dishwashers, he or she could be a prime source of the spread of tuberculosis.
9. **Myopathy** - Heavy consumption of alcohol is also related to the degeneration of skeletal muscles.

The use of alcohol has traditionally been justified on the basis of its medicinal value--to provide symptomatic relief for pain, insomnia, anxiety, and common stress. However, there is only limited and inconsistent support that alcohol use reduces pain, stress, or tension. Today, other pharmacological agents can be prescribed with greater therapeutic effectiveness.

Any potential benefit of using alcohol must be weighed against the attendant risks.



### Public Safety Risks

The interagency report cited on the previous pages also lists some of the safety risks of drinking alcohol.

Laboratory experiments have shown that body sway, a motor function, shows significant impairment at a fairly low blood alcohol level of 0.04 percent. This is less than half the level (0.10 percent) that the state requires as evidence for driving while under the influence of alcohol.

Alcohol intoxication produces a wide variety of alternations in coordination, sensory-motor processes, cognition, and emotions. Some of these effects contribute to traffic accidents, violence, and crime.

In recent years various studies have concluded the following:

1. Drinking of alcoholic beverages is a significant factor in the commission of petty crime, charges of disorderly conduct, vagrancy, trespassing, and disturbing the peace. Alcohol is also highly related to crimes of violence and crimes of a sexual nature.
2. Driving while under the influence of alcohol. According to the Washington Traffic Safety Commission, during 1980 over 18 percent of all drivers involved in traffic collisions had been drinking alcohol. Over 49 percent of the drivers involved in fatal collisions had been drinking.

As the availability of alcohol increases so does heavy drinking by teenagers. During 1980, 21 percent of all alcohol related auto accidents in Washington State included teenage (16-20) drivers while they comprised only 9.8 percent of all licensed drivers.

3. Over 40 percent of juvenile and family court cases involved alcoholic behavior during 1980.
4. Alcohol has also been seriously implicated in accidental death and injury as a result of home, industrial, and recreational accidents.
5. Alcohol used in combination with other drugs has been reported to be the second most frequent cause of drug related medical crises in the United States.

Alcohol is a drug (ethyl alcohol or ethanol) which is classified as a reversible general central nervous system depressant. Ethanol content ranges from approximately four percent by volume for beer to 12 percent for wine. The alcohol content for distilled spirits can range from 40 to 50 percent.

The consumption of ethanol in combination with other types of drugs can alter the effect of both the ethanol and the drugs. In addition to the harmful medical consequences of combined drug use, the resulting behavioral effects may precipitate hazardous consequences such as serious or fatal accidents.

The Washington State Interagency Advisory Committee on Alcohol and Traffic Safety considers the threat to personal safety caused by drinking drivers as just unacceptable.

"Drinking and driving is a major public health hazard which deserves close and continuing attention by all governmental and private organizations concerned with highway safety. In ten years (1970 to 1979), drinking drivers were involved in almost 173,000 motor vehicle accidents in Washington State. Over 122,000 people were injured in the accidents and more than 4,200 were killed. Over half of all fatal traffic accidents in the state during the period involved drinking drivers.

If this carnage is allowed to continue at the same rate through the next decade, a number of people equal to one in every 33 state residents will be killed or injured in a traffic accident involving a drinking driver. The economic costs alone will be measured not just in millions but hundreds of millions of dollars."\*

#### Severe or Prevalent Risks

Of all the health and safety hazards identified by the federal government's Interagency Committee on the Health Hazards Associated with Alcohol, the following five, in the committee's judgement, are the most severe or prevalent:

1. Fetal Alcohol Syndrome
2. Alcoholism
3. The major medical consequences of drinking, i.e. liver disease, cancer and heart problems, etc.
4. Accidental death and injury
5. Alcohol-Drug interactions

#### Social Costs of Drinking Liquor

Recent surveys of American drinking patterns conducted for the National Institute on Alcohol Use and Alcoholism by Louis Harris and Associates and the Opinion Research Corporation indicate that around 29 percent of the natural drinking age population are abstainers, 34 percent are light drinkers (up to four drinks per week), 24 percent are moderate drinkers (from four to 13 drinks per week) and 14 percent are heavy drinkers (from 14 or more drinks per week to five or more on at least one occasion during the week).

Applying the median amounts consumed by each class to total liquor sales in the U.S., 63 percent of the total population (abstainers and light drinkers) consume approximately 10 percent of all alcoholic beverages. Twenty-four percent (the moderate drinkers) consume approximately 30 percent, and the remaining 13 percent (heavy drinkers) consume 60 percent of all alcoholic beverages sold in the United States.

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\*Findings and Recommendations of the State Interagency Advisory Committee on Alcohol and Traffic Safety, February 1981.

This survey data generally agrees with the survey data used by the Federal Interagency Committee which indicated that between 10 and 11 percent of the national drinking population are the problem drinkers or alcoholics.

Although statistics pertaining to the characteristics of liquor consumption in Washington State are not available, the national statistics could be used to indicate the parameters of state liquor drinking. Based on the state's adult population, there may have been as many as 275,000 to 360,000 heavy or problem drinkers state-wide in 1980. This may reach a potential 340,00 to 450,000 heavy drinkers during the next decade.

The social costs resulting from drinking of this magnitude are very difficult to estimate. However, they may amount to millions of dollars each year.



### Potential for Increased Crime and Criminal Infiltration

Liquor control enforcement officials in Washington State and many other states are constantly concerned with the prevention of liquor related crime and criminal penetration of the liquor industry.

In addition to robbery, theft, prostitution, and other crimes related to liquor, liquor is a commodity which lends itself to use by criminal organizations. Illegal money can be laundered and used to supplement income derived from vice activities which are commonly associated with liquor. (Since most monies generated by criminal activities are derived from illegal sources such as narcotics, gambling, prostitution, or loan sharking, the criminal cannot report the income. Consequently, it is necessary to give the illegally obtained monies an image of legitimacy. The process of conversion is known as "laundering".)

While there is very little published information regarding specific cases of criminal infiltration of the liquor industry, law enforcement officials and our own pre-Steele Act history indicate potential for increased criminal involvement. Laundering opportunities and the possibility of high profits naturally attract the undesirable elements.

Since almost all checks and credit card receipts are traceable by law enforcement officials, businesses such as restaurants, theaters, bars, and liquor stores tend to be desirable for laundry operations. These types of businesses are capable of absorbing a large amount of cash. Privately operated liquor stores are very attractive and susceptible to takeover by organized crime.

One of the major concerns of the state liquor control enforcement officials is the increased potential for hidden ownership of liquor stores for illegal purposes if the state opens up the sale of liquor.

The possibility of criminal infiltration becomes more disturbing when one considers that every method used to obtain the illicit funds can also be applied to the legitimate market place. Unfair business advantage over honest businessmen can be gained by the ruthless elimination of competition.

In Washington State, tight controls and strict enforcement have kept criminal activity at a minimum. The ownership of wholesale and retail operations has been kept separate and the manufacturers of liquor products cannot own or have any interest in a liquor retail establishment.

Conversion to a free enterprise liquor distribution system would greatly decrease control and provide large profits to those who would eventually control distribution. The risk of infiltration by criminal elements may increase as state control is reduced and detection made much more difficult.

Considering the seriousness of the various health and safety hazards associated with liquor consumption and the high risk of increased crime, it is evident that the adoption of state policy that would encourage increased liquor consumption and, at the same time, indiscriminately decrease liquor control would not be in the best interest of the people of the state.

Much more information is required relative to the extent and nature of drinking in Washington State. The drinking patterns of state residents must be identified more accurately together with the direct effects of heavy drinking on public health and accident involvement. If possible, the direct effect of increased drinking per capita on public health and safety should be determined so that the full costs of conversion can be considered.

Although there is very little quantitative information available linking increased alcohol consumption with the inherent risks, conversion to the free enterprise system would likely have negative health and safety impacts on the citizens of Washington.

## VII. FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### Purpose of Study Restated

The purpose of this study has been to collect, assemble, and analyze information regarding state liquor policy and the state's future role in retail liquor sales. It is not the purpose of this study to judge the day to day financial or administrative performance of the State Liquor Control Board or to compare the Board's managerial performance to similar private sector operations. Adequate information must be provided to decision makers so that they can determine, as a policy matter, whether it is necessary or even desirable for the state to continue in the retail liquor business.

Additional time would be required to determine the impacts of all of the alternatives and to gather adequate information regarding the health and safety risks associated with increased alcohol consumption. However, based on the information present in this report, it can be concluded that there is no advantage for the citizens of Washington to convert the present liquor merchandising system to a free enterprise market approach at this time.

### Findings

It is important to understand that Washington's present liquor control system was created at the end of the prohibition era. After 14 years of prohibition, it was apparent that the complete restriction of alcohol would not work. Washington's citizens repealed state prohibition laws in 1932. So, for a short period of time between 1932 and 1933 state liquor sales went completely unregulated.

The manufacture and sale of alcoholic beverages was left completely in the hands of private business. Profit motives were high and undesirable elements were again attracted to the industry. Unacceptable competitive practices followed. It was not a desirable situation.

Again, the people demanded that something be done to control liquor sales. As a compromise, the Washington State Legislature adopted the Steele Act in 1933. Strict state control of liquor manufacturing and sale was placed into law. Since 1933, the citizens of Washington have been relatively quiet on the liquor sales issue. The only major change to the present system occurred in 1948 when Initiative 171 was adopted by the voters. This initiative allowed hotels, restaurants, and clubs to sell liquor by the drink.

Several attempts were made during the 1970s to allow the sale of hard liquor in grocery stores. However, none was successful.

The conversion of the present state liquor merchandising approach to the open market system would result in less revenue, higher liquor prices, and the increased consumption of hard liquor. Exact revenue losses, price increases, and liquor consumption levels are difficult to estimate. However, the estimates calculated in this report reveal that a free enterprise system would have to generate between 25 and 30 percent more hard liquor consumption per capita each year in order to match the revenues projected for the Liquor Control Board during the same period.



It can be assumed that per capita consumption of liquor would be higher under a free enterprise system because the number of retail outlets would likely increase five to ten fold. In addition, the availability of hard liquor in grocery stores would make it a convenience or impulse item which would also stimulate sales.

Whether consumption would ever reach the level necessary to match the revenue generation capacity of the state liquor stores is not known. Generally, prices would be higher due to the double wholesale/retail markup procedure used by private enterprise. Thus, consumption would be inhibited to some extent.

The nonfinancial impacts of alcohol consumption are also very difficult to quantify. However, they are identifiable and can be divided into three categories: (1) the effects on personal health; (2) increased public safety risks; and, (3) the possibility of increased alcohol related crime and criminal interest in liquor distribution.

Considering the seriousness of the potential risks, it is evident that the adoption of state policies that could stimulate alcohol consumption and encourage crime would not be in the best interest of the people of Washington. It would be irresponsible to substantially change the present system unless further in-depth investigation proves this report's conclusions incorrect.

The overall conclusion is that Washington has had an excellent liquor control system in operation for many years. There has not been enough interest on the part of Washington's citizens to modify the system since 1948. Indeed, public sentiment appears to be moving in the opposite direction--toward more restrictions on liquor sales and reduced public consumption. Drunk driving, youth alcoholism, and the health problems associated with liquor consumption are issues that seem to be the significant concern of the general public at this time.

Based on the information gathered by this study, there is no advantage for the people of this state to convert to a free enterprise liquor sales approach. However, there are several policy and regulatory problems that the legislature and/or the Liquor Control Board should address to improve the efficiency of the system.

Great care should be taken to properly evaluate any proposals that will fundamentally change the present system. Any change should be deliberate, rational, and well thought out.

### Recommendations

The question remains: "What is the proper state government role in retail liquor sales?"

Although it can be argued that government has no business being involved in a profit making business, it also must be recognized that liquor is not like any other product available on grocery store shelves. Liquor is a drug (ethanol) which influences a person's social and emotional behavior. Its increased availability would directly result in increased consumption. As consumption increases, so will alcohol abuse, including abuse by teenagers. Accordingly, strict state control is necessary.

The retail sale of liquor by state government is a legitimate component of liquor control policy. Consumption is restrained and the flow of liquor is properly controlled. Therefore, retail liquor sales by state government is desirable. Any modifications to a system that is working raises questions of public risks that are not desirable and should be considered in a very deliberate manner.

If significant interest in the free enterprise system should develop, the following additional steps are recommended to collect the additional information necessary to make an informed policy decision.

1. A Governor's task force should be organized to refine and expand this study and to formulate liquor policy for the Governor's consideration.
2. Additional information should be collected and evaluated regarding the public health and safety risks of increased alcohol consumption.
3. Expert testimony should be taken regarding the risks of increased crime and criminal activity.
4. A random sample survey should be conducted to determine public interest in grocery store liquor sales and to determine state drinking patterns.
5. A detailed study of the alternatives to the present liquor control approach should be completed.
6. It is also suggested that any fundamental change in state liquor control policy be submitted to the voters for approval.
7. Finally, the legislature and/or the Liquor Control Board should address the wine and beer pricing and regulatory problems identified during the course of this study and listed on Page 61-63 and Appendix G.

APPENDIX A

WASHINGTON STATE  
INITIATIVE AND REFERENDUM LIQUOR CONTROL MEASURES  
1914 - 1981

- November 1914 - Initiative No. 3 - Statewide Prohibition  
Passed - 189,840 - 171,208
- November 1916 - Initiative No. - 18 Brewers Hotel Bill  
Failed - 48,354 - 263,390
- November 1916 - Initiative No. 24 - Brewer's Bill  
Failed - 98,483 - 245,399
- October 1916 - Initiative No. 26 - State Prohibition District  
No petition filed
- November 1918 - Referendum No. 10 - Bone Dry Prohibition  
Passed - 96,100 - 54,322
- March 1919 - Referendum No. 14A - Intoxicating Liquor  
Insufficient signatures on petition
- November 1932 - Initiative No. 32 - Repeal of Prohibition  
Passed - 341,450 - 208,211
- December 1938 - Initiative No. 9 - Liquor by the Drink  
No petition filed
- November 1948 - Initiative No. 13 - Restricting Sales of Beer and Wine to  
State Liquor Stores  
Failed - 208,337 - 602,141
- November 1948 - Initiative No. 171 - Liquor by the Drink  
Passed - 416,227 - 373,418
- November 1968 - Initiative No. 242 - Driver Implied Consent Intoxication  
Tests  
Passed - 792,242 - 394,644
- November 1972 - Initiative No. 261 - Liquor Sales by Licensed Retailers  
Failed - 634,973 - 779,568
- January 1972 - Initiative No. 262 - Minimum Age for Alcoholic Beverages  
No petition filed
- November 1973 - Referendum No. 36 - Minimum age for Alcoholic Beverage  
Consumption  
Failed - 495,624 - 519,491



February 1975 - Initiative No. 305 - Legal Age for Alcoholic Beverage Consumption

No petition filed

March 1976 - Initiative No. 326 Liquor sold in Retail Liquor Stores

Sponsorship of Initiative withdrawn

March 1976 - Initiative No. 332 - Remove state from Retail Liquor Sales

No petition filed

February 1978 - Initiative 351 - Lower Age for Alcoholic Consumption

No petition filed

February 1979 - Initiatives No. 365/366 - Retail Liquor: A private business

No petition filed

February 1981 - Initiative No. 406 Retail Liquor: A private business

Required number of signatures not obtained.

**MAJOR CONTRIBUTORS\***  
**PRIVATE RETAIL LIQUOR SALES INITIATIVES**

<b>Initiative No. 332</b>	<u><b>1976</b></u>
Safeway	\$15,385
Associated Grocers	2,500
Washington Food Dealer Association	1,500
Birkenwald Distributors	1,000
Food Industry Association	1,000
 <b>Initiative No. 365</b>	 <u><b>1979</b></u>
Safeway	\$14,500
Washington State Licensed Beverage Association	5,400
Holiday Foods	3,000
Olson's Foods	3,000
Hoggen Foods	2,000
Fred Meyer	2,000
Grove Tavern	1,500
Columbia Center	1,500
Rosauers	1,000
Cost Cutter Stores	1,000
 <b>Initiative No. 406</b>	 <u><b>1981</b></u>
Safeway	\$14,000
Gary Raden and Sons	4,400
Rosauers	2,900
Birkenwald Distributors	3,500
Albertson's	3,000
Fred Meyer	4,000

\*Washington State Public Disclosure Commission

## APPENDIX B

### Washington State Alcohol Consumption and Sales Projections FY 1980 - 1989

The following information is presented to describe the methodology used to develop the forecast of alcoholic beverages to be sold in Washington State during the period 1980-1989.

I. <u>Historical Data</u>	<u>1971</u>	<u>1980</u>	<u>Increase</u>
A. State Resident Population over 21 years from 1971- 1980. (Forecasting and Estimation Division/OFM)	2,090,069	2,743,209	+ 653,140 ( 31.24%)
B. Alcoholic Beverage Sales in Washington State 1971-1980 (Washington State Liquor Control Board)			
1. Spirits (gallons) WSLCB Sales	6,314,186	8,439,527	+ 2,125,341 ( 33.66%)
2. Wine (gallons) WSLCB Sales	1,429,607	2,286,153	+ 856,046 ( 59.91%)
Private Sector Sales	5,194,577	10,094,621	+ 4,900,044 ( 94.33%)
TOTAL Wine	6,624,184	12,380,774	+ 5,756,590 ( 86.90%)
3. Beer (gallons) WSLCB Sales	64,055	445,359	+ 381,304 (595.28%)
Private Sector Sales	67,779,321	98,704,620	+30,925,299 ( 45.63%)
TOTAL Beer	67,843,376	99,149,979	+31,306,603 ( 46.15%)

C. Market Share Percent of Total Sales (Individual sales ÷ total sales)			
	<u>1971</u>	<u>1980</u>	<u>Increase</u>
1. Spirits			
WSLCB	100.00%	100.00%	--
2. Wine			
WSLCB	21.58%	18.47%	- 3.11%
Private Sector	78.42%	81.53%	+ 3.11%
3. Beer			
WSLCB	.0009%	.0044%	+ .0035%
Private Sector	99.9991%	99.9956%	- .0035%
4. TOTAL			
WSLCB	9.67%	9.31%	- .36%
Private	90.33%	90.69%	+ .36%
D. Apparent Per Capita Consumption (gallons) (total sales ÷ over 21 population)			
1. Spirits	3.0210	3.0765	+ .0555 ( 1.84%)
2. Wine	3.17	4.51	+ 1.34 ( 42.27%)
3. Beer	32.46	36.14	+ 3.68 ( 11.34%)

II. <u>Projections</u>			
	<u>1980</u>	<u>1989</u>	<u>Increase</u>
A. State Resident population over 21 years 1980-1989 (Forecasting and Estimation Division of OFM)	2,743,209	3,425,355*	+ 682,146 ( 24.87%)
B. Per Capita Consumption			

To calculate the per capita consumption rate for 1989, a formula was developed to reflect change that would occur as a result of a projected increase in population in balance with the historical increase in per capita consumption rate of the prior 10 year period. A slight variance in the formula was used for wine per capita. The first half decade per capita consumption for wine varied widely. Therefore, only the last 5 years was used as a base period. The result was then multiplied by 2 to arrive at a 10 year base figure. The formulas are as follows:

\*A more recent population projection was developed by the Forecasting and Estimation Division of the Office of Financial Management but was not used as the basis for liquor consumption projections developed in this appendix.

1. Spirits\*

• Step 1:

$$\begin{aligned} 1980 \text{ PC } 3.0765162 - 1971 \text{ PC } 3.0210419 &= .0554743 \\ &\text{PC net increase/1971-1980} \\ 1980 \text{ PC } 3.076512 + 10 \text{ year increase } .0554744 \text{ PC} &= 3.1319864/1989 \text{ PC} \end{aligned}$$

• Step 2: To determine annual per capita rate

$$10 \text{ year increase } .0554744 \text{ PC} \times \text{annual \% of population growth of } 682,146/1980-1989$$

Example:

$$\begin{aligned} 1980-1981 \text{ population growth is } 94,392 \div \text{total growth } 682,146 \\ 1980-1989 = 13.84\% \\ .0554744 \text{ PC} \times 13.84\% &= .0076776 \text{ PC growth for 1981} \\ .0076776 + 1980 \text{ PC rate of } 3.0765162 &= 3.0841938 \text{ 1981 PC} \end{aligned}$$

2. Wine

• Step 1:

$$\begin{aligned} 1980 \text{ PC rate } 4.5132 \text{ PC} - 1975 \text{ PC } 3.6609 &= .8523 \text{ or 5 year} \\ &\text{(1975-1980) PC growth} \\ .8523 \times 2 &= 1.7046 \text{ or 10 year PC growth} \\ 1980 \text{ PC } 4.5132 + 10 \text{ year change } 1.7046 \text{ PC} &= 6.2178/1989 \\ &\text{PC rate} \end{aligned}$$

• Step 2: To determine annual PC rate:

$$10 \text{ year Increase of } 1.7046 \times \text{annual \% of population growth of } 682,146$$

Example:

$$\begin{aligned} 1981 \text{ population growth is } 94,392 \div \text{total 10 year growth } 682,146 &= 13.84\% \\ 1.7046 \times 13.84\% &= .235917 \text{ PC growth for 1981} \\ .235917 + 1980 \text{ PC rate of } 4.5132 &= 4.7491 \text{ 1981 PC rate} \end{aligned}$$

3. Beer

• Step 1:

$$1980 \text{ PC rate } 36.1438 - 1971 \text{ PC rate } 32.4599 = 3.6839 - 10 \text{ year growth PC}$$

• Step 2: To determine annual PC rate:

$$10 \text{ year increase of } 3.6839 \times \text{annual \% of population growth of } 68,146$$

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\*PC = Per Capita

Example:

1981 population growth is  $94,392 \div \text{total 10 year growth } 682,146 = 13.84\%$   
 $3.6839 \times 13.84\% = .50985$  PC growth for 1981  
 $.50985 + 1980 \text{ PC rate } 36.1438 = 36.6537$  1981 PC

C. Annual Consumption (Gallons Sold)

To determine the gallons sold each year the annual per capita rate resulting from the above formula is multiplied by the adult population:

Example:

	<u>1981 Over 21 Population</u>		<u>1981 PC Rate</u>		<u>1981 Consumption (Gallons Sold)</u>
Spirits	2,837,601	X	3.0841938	=	8,751,711
Wine	2,837,601	X	4.7492	=	13,476,334
Beer	2,837,601	X	36.6537	=	104,008,576

D. Market Share

To determine the market share of wine and beer that is sold through the WSLCB stores, a straight historical base for the prior ten year period was used.

Beer - 0.004492%  
Wine - 18.0%

Spirits are sold exclusively in WSLCB stores

The following tables are derived from applying the above formulas:



### SPIRITS (IN GALLONS)

Year	Washington State Liquor Control Board	Private Sector	Total	Percent Change	Apparent Per Capita Consumption
1980	8,439,527	-	8,439,527	3.67%	3.0765
1981	8,751,711	-	8,751,711	3.70%	3.0814
1982	9,028,417	-	9,038,417	3.28%	3.0912
1983	9,305,606	-	9,305,606	2.96%	3.0977
1984	9,568,903	-	9,568,903	2.83%	3.1041
1985	9,823,367	-	9,823,367	2.66%	3.1110
1986	10,063,395	-	10,063,395	2.44%	3.1160
1987	10,291,849	-	10,291,849	2.27%	3.1215
1988	10,512,069	-	10,512,069	2.14%	3.1268
1989	10,728,179	-	10,728,179	2.06%	3.1319

Total Percent Change - 26.31%/1980-1989

### WINE (IN GALLONS)

1980	2,286,153	10,094,621	12,380,774	7.89%	4.5132
1981	2,425,740	11,050,594	13,476,334	8.84%	4.7492
1982	2,612,991	11,903,627	14,516,618	7.72%	4.9648
1983	2,792,278	12,723,153	15,515,431	6.88%	5.1649
1984	2,974,914	13,552,384	16,527,298	6.52%	5.3614
1985	3,155,540	14,375,236	17,530,776	6.07%	5.5506
1986	3,329,941	15,169,729	18,499,670	5.53%	5.7283
1987	3,505,418	15,969,125	19,474,543	5.27%	5.9067
1988	3,672,479	16,730,183	20,402,662	4.77%	6.0688
1989	3,839,528	17,491,185	21,330,713	4.55%	6.2273

Total Percent Change - 72.28%/1980-1989

### BEER (IN GALLONS)

1980	445,359	98,714,620	99,149,979	2.51%	36.1438
1981	467,206	103,541,320	104,008,530	4.90%	36.6537
1982	487,538	108,047,120	108,534,660	4.35%	37.1197
1983	506,780	112,311,510	112,818,290	3.94%	37.5559
1984	525,928	116,555,120	117,081,050	3.79%	37.9807
1985	544,646	120,703,400	121,248,050	3.56%	38.3896
1986	562,483	124,656,430	125,218,920	3.27%	38.7732
1987	579,661	128,463,270	129,042,870	3.05%	39.1379
1988	596,337	132,158,910	132,755,250	2.88%	39.4882
1989	612,864	135,821,630	136,434,497	2.77%	39.8309

Total Percent Change - 37.60%/1980-1989

TOTAL SPIRITS, WINE, AND BEER  
(IN GALLONS)

Year	Washington State Liquor Control Board	Private Sector	Total	Percent Change	Apparent Per Capita Consumption
1980	11,171,035	108,799,241	119,970,280	3.12%	43.7335
1981	11,644,657	114,591,914	126,316,575	5.29%	44.5152
1982	12,138,946	119,950,747	132,089,695	4.57%	45.1757
1983	12,604,664	125,034,663	137,639,327	4.20%	45.8184
1984	13,069,745	130,107,504	143,177,251	4.02%	46.4462
1985	13,523,553	135,078,636	148,602,193	3.79%	47.0504
1986	13,955,819	139,826,159	153,754,985	3.47%	47.6092
1987	14,376,868	144,432,395	158,809,262	3.29%	48.1674
1988	14,780,885	148,889,093	163,669,981	3.06%	48.6838
1989	15,180,571	153,312,815	168,493,389	2.95%	49.1900
Total			40.44%/1980-1989		

WASHINGTON STATE POPULATION PROJECTIONS\*

	Total Population	Over 21 Population	Numerical Growth Over 21	% of Growth Annually
1980	4,130,163	2,743,209	-	-
1981	4,232,663	2,837,601	94,392	13.84
1982	4,329,586	2,923,908	86,307	12.65
1983	4,421,091	3,004,014	80,106	11.74
1984	4,512,779	3,082,646	78,632	11.53
1985	4,605,361	3,158,357	75,711	11.10
1986	4,699,012	3,229,522	71,165	10.43
1987	4,792,826	3,297,026	67,504	9.90
1988	4,885,445	3,361,894	64,868	9.21
1989	4,976,813	3,425,355	63,461	9.30
Ten Year Increase	846,650	682,146	682,146	-

\*Population projections were developed by the Forecasting and Estimation Division of the Office of Financial Management in 1981. A more recent projection developed in February 1982 is available but was not used as a basis for the liquor consumption forecasts presented in this appendix.

## APPENDIX C

### Washington State Liquor Control Board Ten Year Projections of Liquor Revenues and Taxes FY 1981 - 1989

#### Continuation of Present Control System

The following information has been generated to provide projections of the potential liquor revenues earned and liquor sales taxes collected by the Washington State Liquor Control Board during the period FY 1981 - FY 1989 assuming the continuation of the state's present liquor control system.

- Table 1. WSLCB - Projected Sales of Spirits, Wine and Beer, FY 1981 - 1989.
- Table 2. WSLCB - Projected Expenses - Merchandising Division, FY 1981 - 1989.
- Table 3. WSLCB - Projected Expenses - License and Enforcement Division, FY 1981 - 1989.
- Table 4. WSLCB - Projected Net Profits - Merchandising Division, FY 1981 - FY 1989.
- Table 5. WSLCB - Projected Excess Revenues - License and Enforcement Division - FY 1981 - FY 1989.
- Table 6. WSLCB - Projected Net Income from Liquor Sales, FY 1981 - 1989.
- Table 7. WSLCB - Projected Liquor Sales Taxes, FY 1981 - 1989.
- Table 8. WSLCB - Projected Total Liquor Sales Tax and Revenue, FY 1981 - 1989.

#### Methodology:

The method used to develop the projections presented in the accompanying tables is described as follows:

Step 1. Table 1 - The net dollars sales projections were calculated by multiplying the consumption of spirits, wine, and beer (Appendix B) by the projected price per gallon.

Step 2. Tables 2 and 3 - The annual expenses of the WSLCB were calculated using projected total gallons sold (Appendix B) by the Merchandising Division and the FY 1974 - FY 1981 historical percentage increase of FTE's used by the License and Enforcement Division as the basis for the expenses.

Step 3. Table 4 - The WSLCB's Merchandising Division's gross profits on sales were calculated by deducting the cost of goods sold from the total net sales of the Board.

Step 4. Table 4 - The Merchandising Division's net profit on liquor sales was calculated by adding other Division income to the gross profits on sales and then deducting the Division's expenses (Table 2) from the resulting sum.

Step 5. Table 5 - The License and Enforcement Division's net revenues were calculated by deducting the Division's expenses (Table 3) from the total potential revenue collected by the Board for license fees, and the beer and wine taxes.

Step. 6. Table 6 - The WSLCB's potential net income was calculated by the addition of the sum of the Merchandising Division's net profit from the sale of liquor and the License and Enforcement Division's excess revenues to the interest income earned by the Board.

Step 7. Tables 7 and 8 - The potential liquor sales taxes collected by the Board were calculated and added to the total net profits (Table 6) generated by the Board to determine the total net sales taxes and revenues generated by the Board during the FY 1981 - FY 1989 time period.

TABLE 1

Washington State Liquor Control Board  
 Projected Sales of Spirits, Wine, and Beer  
 FY 1981 - FY 1989  
 (Current Dollars)

<u>Spirits</u>				
<u>Fiscal Year</u>	<u>Total Gallons</u>	<u>Net Price Per Gallon</u>	<u>Percent Price Increase</u>	<u>Net Dollar Sales</u>
1981*	8,709,517	\$ 24.2177	4.44%	\$210,924,469
1982	9,028,417	25.3075	4.50	228,486,663
1983	9,305,606	26.4463	4.50	246,098,847
1984	9,568,903	27.6364	4.50	264,450,030
1985	9,823,367	28.8800	4.50	283,698,838
1986	10,063,395	30.1797	4.50	303,710,242
1987	10,291,844	31.5377	4.50	324,382,665
1988	10,512,069	32.9569	4.50	346,445,206
1989	10,728,179	34.4400	4.50	369,478,484

\*1981 Actuals

<u>Wine</u>				
<u>Fiscal Year</u>	<u>Total Gallons</u>	<u>Net Price Per Gallon</u>	<u>Percent Price Increase</u>	<u>Net Dollar Sales</u>
1981*	2,488,901	\$ 9.5612	7.05%	\$ 23,796,880
1982	2,612,991	10.2305	7.00	26,732,204
1983	2,792,278	10.9466	7.00	30,565,950
1984	2,974,914	11.7129	7.00	34,844,870
1985	3,155,540	12.5328	7.00	39,547,752
1986	3,329,941	13.4101	7.00	44,654,842
1987	3,505,418	14.3488	7.00	50,298,542
1988	3,672,479	15.3532	7.00	56,384,305
1989	3,839,528	16.4279	7.00	63,075,382

\*1981 Actuals

TABLE 1 (continued)

<u>Fiscal Year</u>	<u>Total Gallons</u>	<u>Beer</u>		
		<u>Net Price Per Gallon</u>	<u>Percent Price Increase</u>	<u>Net Dollar Sales</u>
1981*	527,540	\$ 3.6450	5.49%	\$ 1,922,883
1982	613,687	3.8090	4.50	2,337,534
1983	704,697	3.9804	4.50	2,804,976
1984	804,694	4.1596	4.50	3,347,205
1985	912,201	4.3467	4.50	3,965,064
1986	1,024,128	4.5423	4.50	4,651,897
1987	1,141,288	4.7467	4.50	5,417,352
1988	1,264,547	4.9603	4.50	6,272,532
1989	1,395,933	5.1836	4.50	7,235,958

\*1981 Actuals

Total Gallons Projected

<u>Fiscal Year</u>	<u>Spirits</u>	<u>Wine</u>	<u>Beer</u>	<u>Total</u>
1981*	8,709,517	2,488,901	527,540	11,725,958
1982	9,028,417	2,612,991	613,687	12,255,095
1983	9,305,606	2,792,278	704,697	12,802,581
1984	9,568,903	2,974,914	804,694	13,348,511
1985	9,823,367	3,155,540	912,201	13,891,108
1986	10,063,395	3,329,941	1,024,128	14,417,464
1987	10,291,899	3,505,418	1,141,288	14,938,555
1988	10,512,069	3,672,479	1,264,547	15,449,095
1989	10,728,179	3,839,528	1,395,933	15,963,640

\*1981 Actuals



**TABLE 1 (continued)**

**Total Net Dollar Sales Projected**

<u>Fiscal Year</u>	<u>Spirits</u>	<u>Wine</u>	<u>Beer</u>	<u>Other**</u>	<u>Total</u>
1981*	\$210,924,469	\$23,796,880	\$1,922,833	\$145,511	\$236,789,743
1982	228,486,663	26,732,204	2,337,534	160,062	257,716,463
1983	246,098,847	30,565,950	2,804,976	176,068	279,645,841
1984	264,450,030	34,844,870	3,347,205	193,675	302,835,780
1985	283,698,838	39,547,752	3,965,064	213,043	327,424,697
1986	303,710,242	44,654,842	4,651,897	234,347	353,251,328
1987	324,382,665	50,298,542	5,417,352	257,782	380,556,341
1988	346,445,206	56,384,305	6,272,532	283,560	409,385,603
1989	369,478,484	63,075,382	7,235,958	311,916	440,101,740

\*1981 Actuals

\*\* Alcohol products, annual ten percent increase per year using FY 1981 as base year

**Assumptions:**

1. Spirits and Wine Gallon Projections based on projections calculated in Appendix B of this report.
2. Beer Gallon Projections based on WSLCB's Historical Growth of Strong Beer Sales.
3. All Price Inflators use FY 1981 as Base Year with Inflation Rates Based on WSLCB's Historical Annual Price Inflation Rates for Spirits and Strong Beer. Wine Annual Inflation Rates are based on Projections by the American Wine Institute.

TABLE 2

State Liquor Control Board  
Projection of Merchandising Division Expenses  
FY 1981 - FY 1989

Fiscal Year	Gallons Sold	Gallons Per FTE	FTE's Required	Salary and Benefits (Constant \$)	CPI Index	Salary and Benefits (Current \$)
1981*	11,725,958	9,826	1193.6	\$23,340,908	100.0	\$23,340,908
1982	12,255,095	10,023	1222.6	23,822,891	108.7	25,895,483
1983	12,802,581	10,223	1252.3	24,358,701	116.3	28,331,606
1984	13,348,511	10,427	1280.1	24,943,027	124.8	31,128,898
1985	13,891,108	10,636	1306.0	25,446,883	134.0	34,106,458
1986	14,417,464	10,849	1328.9	25,892,677	144.2	37,342,419
1987	14,938,555	11,066	1349.9	26,302,425	155.7	40,968,658
1988	15,449,095	11,287	1368.7	26,668,725	167.9	44,779,456
1989	15,963,640	11,513	1386.5	27,015,929	180.6	48,809,681

\*FY 1981 Actuals

Fiscal Year	Gallons Sold	Cost Per Gallons Sold	Other Expenses (Current \$)	Salary and Benefits (Current \$)	Total Merchandising Division Expense (Current \$)
1981*	11,725,958	.646015	\$ 7,575,145	\$23,340,908	\$30,916,054
1982	12,255,095	.702218	8,605,748	25,895,483	34,501,231
1983	12,802,581	.751380	9,619,603	28,331,606	37,951,209
1984	13,348,511	.806227	10,761,929	31,128,898	41,890,827
1985	13,891,108	.865854	12,027,671	34,106,458	46,134,129
1986	14,417,464	.931683	13,432,506	37,342,419	50,774,925
1987	14,938,555	1.006233	15,031,667	40,968,658	56,000,325
1988	15,449,095	1.087240	16,758,004	44,779,456	61,537,460
1989	15,963,640	1.167155	18,632,042	48,809,681	67,441,773

\*FY 1981 Actuals

1. Gallons per FTE = two percent productivity per year increase FY 1981 - 1989 using FY 1981 as base year.
2. Salary and Benefits (Constant \$) = \$19,484 salary and benefits per FTE X number of FTE required each year.
3. CPI Index 1981 = 100.0 annual. Index from U.S. Long Term Review, Autumn 1981, Data Resources, Inc.
4. Cost per Gallon Sold is calculated on the actual gallons sold in 1981. The resulting factor (.646015) is then increased by the CPI Index used for salaries and benefits.

TABLE 3

State Liquor Control Board  
 Projection of License and Enforcement Division Expenses  
 FY 1981 - FY 1989

Fiscal Year	FTEs Required	Salaries and Benefits (Constant \$)	Other Expenses (Constant \$)	Total License and Enforcement Expenses (Constant \$)	CPI** Index	Total Licensed General Expenses (Current \$)
1981*	113.07	\$2,719,322	\$ 909,760	\$3,629,082	100.0	\$3,629,082
1982	114.65	2,746,670	927,955	3,674,625	108.7	3,994,317
1983	116.23	2,784,522	946,514	3,731,036	116.3	4,339,568
1984	117.81	2,822,374	965,444	3,787,818	124.8	4,727,197
1985	119.39	2,860,226	984,753	3,844,979	134.0	5,153,425
1986	120.97	2,898,078	1,004,448	3,902,526	144.2	5,628,223
1987	122.55	2,935,930	1,024,537	3,960,467	155.7	6,168,823
1988	124.13	2,973,782	1,045,028	4,018,810	167.9	6,747,984
1989	125.71	3,011,634	1,065,929	4,077,563	180.6	7,366,933

\*FY 1981 Actuals

\*\*CPI Index from U.S. Long Term Review, Autumn 1981, Data Resources, Inc.

Assumptions:

1. FTE's increase 1.58 FTE's per year (1974 - 1981 Average).
2. Salary and Benefits (Constant \$) = \$23,957 salary and benefits per FTE X FTEs required.
3. Other Expenses increase two percent per year using FY 1981 as base year.
4. Total License and Enforcement Division Expenses (Constant \$) X CPI Index each year to calculate total division expenses in Current \$.

TABLE 4

State Liquor Control Board  
Projected Net Profits - Merchandising Division  
FY 1981 - FY 1989  
(Millions of Current Dollars)

<u>Fiscal Year</u>	<u>Net Sales</u>	<u>Cost of Goods Sold</u>	<u>Gross Profit on Sales</u>	<u>Other Income</u>	<u>Expenses</u>	<u>Net Profit Merchandising</u>
1981*	\$236.7	\$168.3	\$ 68.4	\$ .2	\$30.9	\$37.7
1982	257.7	183.2	74.4	.3	34.5	40.2
1983	279.6	198.8	80.7	.3	37.9	43.1
1984	302.8	215.3	87.4	.3	41.8	45.9
1985	327.4	232.8	94.5	.4	46.1	48.8
1986	353.2	251.1	102.0	.4	50.7	51.6
1987	380.5	270.6	109.9	.4	56.0	54.3
1988	409.3	291.1	118.2	.4	61.5	57.2
1989	440.1	312.9	127.1	.5	67.4	60.2

\*FY 1981 Actuals

Assumptions:

1. Cost of Goods Sold = 71.11% of Net Sales (Average of four of last five years).
2. Other Income based on percent increase in Net Sales.
3. Direct Merchandising Expense Calculations based on Table 2.

TABLE 5

State Liquor Control Board  
Projected Net Revenue  
License and Enforcement Division  
FY 1981 - FY 1989  
(Millions of Current Dollars)

<u>Fiscal Year</u>	<u>License Fees</u>	<u>Beer Tax</u>	<u>Wine Tax</u>	<u>Total Revenue</u>	<u>License and Enforcement Expense</u>	<u>Net Revenue</u>
1981*	\$3.7	\$ 4.5	\$10.1	\$18.4	\$3.6	\$14.7
1982	6.9	8.7	11.0	26.7	3.9	22.7
1983	7.3	9.1	11.8	28.3	4.3	23.6
1984	7.6	9.5	12.6	29.9	4.7	25.1
1985	8.0	9.9	13.5	31.6	5.1	26.4
1986	8.4	10.4	14.5	33.4	5.6	27.7
1987	8.8	10.8	15.5	35.3	6.1	29.1
1988	9.3	11.3	16.6	37.3	6.7	30.6
1989	9.7	11.8	17.8	39.5	7.3	32.1

\*FY 1981 Actuals

Assumptions:

1. License fees increase 5.0 percent annually after FY 1982. A major increase in license fees was made on July 1, 1981.
2. Beer tax increase 4.5 percent annually after adjustment to \$2.60 per barrel rate - July 1, 1981.
3. Wine tax increase 7.0 percent annually after adjustment to 20.25 cent per liter rate July 1, 1981.
4. Total revenue figure includes miscellaneous income calculated at ten percent annual rate of increase using FY 1981 as base year.
5. License and Enforcement expense calculation based on Table 3.

**TABLE 6**

**State Liquor Control Board  
Projected Net Excess Funds  
1981 - 1989  
(Millions of Current Dollars)**

<u>Fiscal Year</u>	<u>Merchandising Division Net Profits</u>	<u>License and Enforcement Division Excess Revenue</u>	<u>Interest Income Earned</u>	<u>Increase in Working Capital</u>	<u>Total Net Income</u>
1981*	\$37.7	\$14.7	\$1.1	(\$2.1)	\$53.5
1982	40.2	22.7	1.2	(1.2)	64.1
1983	43.1	23.6	1.3	(1.2)	68.0
1984	45.9	25.1	1.4	(1.3)	72.4
1985	48.8	26.4	1.5	(1.4)	76.7
1986	51.6	27.7	1.6	(1.5)	80.9
1987	54.3	29.1	1.8	(1.6)	85.2
1988	57.2	30.6	1.9	(1.7)	89.7
1989	60.2	32.1	2.0	(1.8)	94.3

\*FY 1981 Actuals

**Assumptions:**

1. Interest Income earned equals same growth as net sales.
2. Increase in Working Capital = Increase in Cost of Goods Sold ÷ 12 months.

TABLE 7

State Liquor Control Board  
Projected Liquor Sales Taxes  
FY 1981 - FY 1989  
(Millions of Current Dollars)

<u>Fiscal Year</u>	<u>Sales Tax on Spirits and Beer</u>	<u>Liter Tax on Spirits</u>	<u>General** Sales Tax on Wine</u>	<u>Total Sales Taxes</u>
1981*	\$28.2	\$44.0	\$1.3	\$ 73.6
1982	30.6	58.0	1.4	90.2
1983	33.0	59.8	1.7	94.6
1984	35.5	61.5	1.9	99.0
1985	38.2	63.1	2.2	103.6
1986	40.9	64.7	2.4	108.1
1987	43.8	66.2	2.8	112.8
1988	46.8	67.6	3.1	117.6
1989	50.0	69.0	3.5	122.5

\*FY 1981 Actuals

\*\*Not included in total

Assumptions:

1. 10 and 15 percent liquor sales tax on spirits and beer. 1980 and 1981 averages used (13.2828 percent of net sales).
2. Liter tax - 4 cents per ounce used in 1980 and 1981. 4 cent ounce tax yielded 98.8134858 percent in 1981. \$1.72 liter tax ÷ 33.8144 ounce X 98.8134858 percent X 128 ounces = \$6.43358363 liter tax per gallon.
3. General sales tax on wine and alcohol sold by the WSLCB in 1981 - Effective rate of 5.1272071 percent.



**TABLE 8**

**State Liquor Control Board  
Projected Liquor Taxes and Revenues  
FY 1981 - FY 1989  
(Millions of Current Dollars)**

<u>Fiscal Year</u>	<u>Total Sales Taxes</u>	<u>Total Net Profits</u>	<u>Total Taxes and Profits</u>
1981*	\$ 73.6	\$ 53.5	\$ 127.1
1982	90.2	64.1	154.3
1983	94.6	68.0	162.6
1984	99.0	72.4	171.4
1985	103.6	76.7	180.3
1986	108.1	80.9	189.0
1987	112.8	85.2	198.0
1988	117.6	89.7	207.3
1989	122.5	94.3	216.8
*FY 1981 Actuals			
Ten Year Total	\$922.0	\$684.8	\$1,606.8
Ten Year % Growth	66.4%	76.5%	70.5%

## APPENDIX D

### Washington State Free Enterprise Liquor Control Alternative

#### Ten Year Estimate of Liquor Related Revenues Generated from both Wholesale and Retail Liquor Sales by the Private Sector FY 1981 - FY 1989

#### Free Enterprise System of Liquor Control with 100 Percent of Both Wholesale and Retail Sales of Spirits, Wine, and Beer made by the Private Sector

The following information has been generated to provide estimates of the potential liquor related taxes and revenues collected as a result of major modifications to the states liquor control laws.

The estimate is based upon the assumption that the State Liquor Control Board is completely divested of its liquor merchandising activities in fiscal year 1981 and private retail and wholesale food stores are allowed to sell spirits in addition to beer and wine.

Although the sales levels of spirits under the open system would be difficult to predict at this time, it is assumed that sales volume will be higher as compared to the Washington State Liquor Board's projections as presented in Appendix C.

In order to develop this estimate, the WSLCB's projected net sales as presented in Appendix C Table 1 are used as the base for calculating the liquor taxes and revenues presented in this Appendix. In this manner, they will be comparable to the tax and revenue projections calculated in Appendix C.

Table 1. Washington State Free Enterprise Liquor Control Alternative - 10 Year Comparative Summary of Liquor Taxes and Revenues, FY 1981 - 1989.

Table 2. Washington State Free Enterprise Liquor Control Alternative - Estimate of Private Sector Wholesale and Retail Liquor Related Taxes and Revenues, FY 1981.

Table 3. Washington State Free Enterprise Liquor Control Alternative - Estimate of Private Sector Wholesale and Retail Liquor Related Taxes and Revenues, FY 1982.

Table 4. Washington State Free Enterprise Liquor Control Alternative - Estimate of Private Sector Wholesale and Retail Liquor Related Taxes and Revenues, FY 1983.

Table 5. Washington State Free Enterprise Liquor Control Alternative - Estimate of Private Sector Wholesale and Retail Liquor Related Taxes and Revenues, FY 1984.

Table 6. Washington State Free Enterprise Liquor Control Alternative - Estimate of Private Sector Wholesale and Retail Liquor Related Taxes and Revenues, FY 1985.

Table 7. Washington State Free Enterprise Liquor Control Alternative - Estimate of Private Sector Wholesale and Retail Liquor Related Taxes and Revenues, FY 1986.

Table 8. Washington State Free Enterprise Liquor Control Alternative - Estimate of Private Sector Wholesale and Retail Liquor Related Taxes and Revenues, FY 1987.

Table 9. Washington State Free Enterprise Liquor Control Alternative - Estimate of Private Sector Wholesale and Retail Liquor Related Taxes and Revenues, FY 1988.

Table 10. Washington State Free Enterprise Liquor Control Alternative - Estimate of Private Sector Wholesale and Retail Liquor Related Taxes and Revenues, FY 1989.

#### Methodology:

The method used to develop the liquor revenue estimates presented in this appendix is described as follows:

Step 1. The yearly estimates are based upon the net sales projections developed for the WSLCB - Table 1 Appendix C. Based on the net sales, the cost of goods sold figure for each year is calculated by multiplying the annual net sales projection by .7111 percent (the average percentage over the last five years) - Table 4 Appendix C.

The annual breakdown of cost of goods sold into liquor categories is based on the net sales breakdown of beer, wine, and spirits presented in Table 1 Appendix C. The breakout of spirits into further categories is based on the actual FY 1981 percentage breakdown for Class H, military, and other spirits.

Step 2. The annual fluid ounce or liter tax on spirits is based on the figures developed for the WSLCB Table 7 Appendix C. The breakdown of the tax into Class H and "other" is based on the FY 1981 cost of goods sold percentage breakdown for spirits. The four cent fluid ounce tax is used to calculate the tax level in FY 1981. The \$1.72 per liter tax is used to calculate the tax level for FY's 1982 - 1989.

Step 3. The annual wine tax is calculated by multiplying the gallons sold by .75 cents per gallon in FY 1981 and by .7665435 cents per gallon (or .2025 cent per liter) for FY's 1982 - 1989.

Step 4. The annual beer tax is calculated by dividing the gallons sold by 31 (gallons per barrel) to obtain the number of barrels sold. The number of barrels of beer sold is then multiplied by the \$1.50 per barrel beer tax for FY 1981 and \$2.60 per barrel tax for FY's 1982 - 1989.

Step 5. The liter tax on spirits, the wine tax, and the beer tax are then added to the cost of goods sold each year to obtain the wholesale mark-up base.

Step 6. The wholesale price level is calculated by multiplying the wholesale mark-up base by the mark-up percentage, 35 percent mark-up for beer and wine and 20 percent for spirits.

It can be determined from private sector beer and wine price postings with the WSLCB that the average wholesale mark-up is 35 percent.

The 20 percent wholesale mark-up figure used for spirits was obtained from other free enterprise states.

Step 7. The retail price level is calculated by multiplying the wholesale price calculated in Step 5 by the same mark-up percentages used for the wholesale mark-up calculations.

Step 8. Liquor sales taxes are calculated as follows:

- a. Class H Spirits = Wholesale price X 10 percent tax;
- b. Military Spirits = no taxes;
- c. Other Spirits = Retail price X 15 percent tax;
- d. Wine = Retail price X general sales tax (5.1272071 percent average);
- e. Beer = Retail price X general sales tax (5.1272071 percent average); and
- f. Alcohol = Retail price X general sales tax (5.1272071 percent average). 76.71 percent alcohol - sales tax exempt.

Step 9. Business and Occupation Taxes are calculated as follows:

- a. State Wholesale = Wholesale price X .0044 percent;
- b. State Retail = Retail price X .0044 percent;
- c. Inventory Tax Credit = 75 percent X Wholesale and Retail Inventory Tax - FY 1981. (85 percent used for FY 1982, 95 percent used for FY 1983, and 100 percent used for FY 1984).
- d. Local Wholesale = Wholesale price X .0010 percent; and
- e. Local Retail = Retail price X .0010 percent.

Step. 10. Real and Personnel Property Taxes are calculated as follows:

a. Warehouse Property Taxes:

<u>Fiscal Year</u>	<u>Assessment*</u>		<u>Effective Rate</u>		<u>Property Tax</u>
1981	\$ 5,166,800	X	.0093	=	\$48,051
1982	5,941,820	X	.0086	=	51,100
1983	6,833,093	X	.0078	=	53,297
1984	7,858,056	X	.0072	=	56,577
1985	9,036,765	X	.0068	=	61,444
1986	10,392,228	X	.0065	=	67,548
1987	11,951,112	X	.0062	=	74,096
1988	13,743,790	X	.0058	=	79,709
1989	\$15,805,358	X	.0055	=	\$85,347

\*Assessment increased 15 percent each year

b. Wholesale Inventory Tax:

<u>Fiscal Year</u>	<u>Wholesale Inventory 12 Month Ending Average*</u>		<u>Effective Rate</u>		<u>Wholesale Inventory Tax</u>
1981	\$18,272,091	X	.0093	=	\$169,930
1982	19,892,825	X	.0086	=	171,078
1983	21,581,725	X	.0078	=	168,337
1984	\$23,370,850	X	.0072	=	\$168,270

c. Retail Inventory Tax:

<u>Fiscal Year</u>	<u>Store Inventory 12 Month Daily Average*</u>		<u>Effective Rate</u>		<u>Retail Inventory Tax</u>
1981	\$18,753,101	X	.0093	=	\$174,404
1982	20,416,501	X	.0086	=	175,581
1983	22,149,861	X	.0078	=	172,768
1984	\$23,986,084	X	.0072	=	\$172,705

\*Inventories increase at same percent rate as net sales.

- d. Fixtures value estimate based on 1318 licensees at \$2,500 each = \$3,295,000 X effective rate each year.

Step 11. The additional license fees were calculated as follows:

Off premises consumption of spirits at same number per population as average of other free enterprise states. 1981 state population at 4,232,663 = one license/3,212 population = 1,318 licenses.

- Off premises - 1,318 X \$1,000 = \$1,318,000
- Import Licenses - 91 X \$600 = 54,600
- Spirits Wholesale License - 100 X \$1,500 = 150,000
- Total additional annual license fees = \$1,522,600\*

\*Will increase at same rate as population increase each year as follows:

<u>Fiscal Year</u>	<u>Percent Population Growth</u>	<u>License Fees</u>
1981	-	\$1,522,600
1982	12.6	1,568,911
1983	11.7	1,752,473
1984	11.5	1,954,007
1985	11.1	2,170,902
1986	10.4	2,396,676
1987	9.9	2,633,947
1988	9.2	2,921,574
1989	9.3	\$3,193,280

Step 12. Miscellaneous income from carrier Class H mark-up and liquor taxes is calculated as follows:

<u>Fiscal Year</u>	<u>Growth of Net Sales</u>	<u>Miscellaneous Income</u>	
1981	-	\$130,086	Actual
1982	.0887%	141,506	
1983	.0849	153,519	
1984	.0829	166,246	
1985	.0812	179,745	
1986	.0788	193,909	
1987	.0772	208,869	
1988	.0756	224,659	
1989	.0752	\$241,553	

Step 13. WSLCB's licensing and enforcement costs are increased by 30 percent in the first year of the free enterprise system and are increased by 10 percent each year to allow for inflation.

Step 14. All taxes and revenues are added, credits are taken for the increased enforcement costs and the inventory tax credit in FY's 1981, 1982, 1983, and 1984 to calculate the potential additional net revenue generated by the free enterprise system.

TABLE 1

Washington State Free Enterprise Liquor Alternative  
 10 Year Comparative Summary of Liquor Taxes and Revenues  
 Estimate of Private Sector Wholesale and  
 Retail Liquor Taxes and Revenues  
 (Based on USICB Actual and Projected Sales Only)  
 FY 1981 - FY 1989

Fiscal Year	\$1.72 Liter Tax	10-15¢ Sales Tax	Beer Tax	General Sales Tax	State 860 Taxes	Local 840 Taxes	Property Taxes	Additional License Fees	Misc. Income	Total Revenue	Cost of Additional Enforcement	Total Net Revenue
1981	\$44,063,628	\$35,618,502	\$ 25,526	\$1,823,473	\$1,887,242	\$487,611	\$423,029	\$1,522,600	\$130,086	\$ 85,981,697	(\$1,088,725)	\$ 84,892,972
1982	58,049,505	40,524,879	51,471	2,056,208	2,144,118	553,893	424,155	1,568,911	141,506	105,514,646	(1,198,295)	104,316,351 (1)
1983	59,868,394	43,177,004	59,104	2,268,489	2,295,499	595,351	420,607	1,752,473	153,519	110,590,440	(1,318,124)	109,272,316
1984	61,562,337	45,889,409	67,890	2,671,189	2,640,158	638,782	245,930	1,954,007	166,246	115,835,748	(1,449,936)	114,385,812
1985	63,199,453	48,703,822	76,507	2,719,483	2,966,191	674,133	79,262	2,170,902	179,745	120,769,898	(1,594,929)	119,174,969
1986	64,743,693	51,481,402	85,895	3,410,301	3,217,361	731,218	84,580	2,396,676	193,909	126,345,635	(1,754,422)	124,591,213
1987	66,213,471	54,618,694	95,721	3,835,214	3,457,558	785,817	90,342	2,633,947	208,769	131,939,573	(1,929,864)	130,009,709
1988	67,630,275	57,682,760	106,059	4,291,634	3,677,463	835,786	94,907	2,921,574	224,659	137,465,117	(2,122,851)	135,342,266
1989	69,020,636	61,017,491	117,078	4,796,513	3,925,217	892,094	99,759	3,193,280	241,553	140,968,485	(2,335,136)	140,568,485

(1) \$1.72 liter tax, 20.25 cent wine tax, \$2.60 barrel beer tax increase over FY 1981



TABLE 2

Washington State Free Enterprise Liquor Alternative  
 Estimate of Private Sector Wholesale and  
 Retail Liquor Taxes and Revenues  
 (Based on WSLCB Actual and Projected Sales Only)  
 Fiscal Year 1981

	Class H Spirits	Military Spirits	Other Spirits	Total Spirits	Wine	Beer	Alcohol	Other	Total	Notes
1. Cost of Goods Sold	\$43,719,672	\$4,452,173	\$102,441,619	\$150,613,464	\$16,297,455	\$1,298,363	\$110,750	-	\$168,320,032	(1) FY 1981 actuals
Plus:										
4 cent ounce tax	13,267,200	-	30,795,599	44,062,799	-	-	-	\$ 829	44,063,628	FY 1981 actuals
75 cent Wine Tax	-	-	-	-	1,872,485	-	-	406	1,872,891	FY 1981 actuals
\$1.50 Barrel Beer Tax	-	-	-	-	-	25,526	-	-	25,526	FY 1981 actuals
2. Wholesale Mark-up Base	56,986,872	4,452,173	133,237,218	194,676,263	18,169,940	1,323,889	110,750	1,235	214,282,077	
3. Wholesale Price	68,384,246	5,342,608	159,884,662	233,611,516	24,529,419	1,787,250	132,900	1,235	260,062,320	(2)
4. Retail Sales Price	-	-	191,861,594	-	33,114,716	2,412,788	159,480	1,235	227,549,813	(3)
5. Sales Taxes:										
10% Tax	6,838,425	-	-	-	-	-	-	-	6,838,425	
15% Tax	-	-	28,779,239	-	-	-	-	838	28,780,077	
General Retail Sales Tax	-	-	-	-	1,697,860	123,709	1,904	-	1,823,473	(4)
6. BEO Taxes:										
State Wholesale									1,144,274	(5)
Retail									1,001,219	(6)
75% Credit									(258,251)	(7)
Local Wholesale									260,062	(8)
Retail									227,549	(9)
7. Real and Personal Property Taxes									48,051	(10)
Warehouse									169,930	(11)
Wholesale Inventory									174,404	(12)
Retail Inventory									30,644	(13)
Fixtures									1,522,600	(14)
8. License Fees									130,086	(15)
9. Miscellaneous Income									(1,088,725)	(16)
10. 30% Increase Enforcement									\$ 84,892,972	
11. Total Net Revenue										

## NOTES:

- (1) Cost of Goods Sold based on WSLCB actual sales for FY 1981  
 (2) Wholesale mark-up = 20% for spirits and 35% for wine and beer  
 (3) Retail mark-up = 20% for spirits and 35% for wine and beer  
 (4) 5.1272071% average rate. 75.01 alcohol is sales tax exempt  
 (5) State Wholesale BEO tax = .0044% of wholesale price (item 3)  
 (6) State Retail BEO tax = .0044% of retail price (item 4)  
 (7) Inventory Tax Credit against State BEO taxes = 75% of Inventory Taxes (item 7)  
 (8) Local Wholesale BEO tax = .0010% of whole price (item 3)  
 (9) Local Retail BEO tax = .0010% of retail price (item 4)  
 (10) Warehouse Land and Building. Assessed at \$5,166,800 X effective rate .0093 percent  
 (11) Wholesale Inventory Month, 12 month end average \$18,272,091 X .0093 percent  
 (12) Retail Inventory Month, 12 month daily average \$18,753,101 X .0093 percent  
 (13) Fixtures = 1318 licenses @ 2,500 each = \$3,295,000 X .0093 percent  
 (14) Estimate = 1318 licenses @ 1,000 = \$1,318,000 + imports 91 X \$600 + wholesalers 100 X \$1,500  
 (15) Carrier Class "M" mark-up and tax  
 (16) 30% increase in enforcement expenses

\*One license per 3.2 population X 4,232,663 = 1318 licenses

TABLE 3

Washington State Free Enterprise Liquor Alternative  
 Estimate of Private Sector Wholesale and  
 Retail Liquor Taxes and Revenues  
 (Based on VSLCB Actual and Projected Sales Only)  
 Fiscal Year 1982

	Class M Spirits	Military Spirits	Other Spirits	Total Spirits	Wine	Beer	Alcohol	Other	Total	Notes
1. Cost of Goods Sold	\$47,360,115	\$4,822,896	\$110,971,711	\$163,154,722	\$18,307,806	\$1,578,323	\$121,825	-	\$183,162,676	(1)
Plus:										
\$1.72 per liter tax	17,361,726	-	40,685,779	-	-	-	-	-	58,049,505	(2)
20.25 cent liter Wine Tax	-	-	-	-	\$ 2,044,847	-	-	-	2,044,847	(3)
\$2.60 Barrel Beer Tax	-	-	-	-	-	51,471	-	-	51,471	
2. Wholesale Mark-up Base	64,723,841	4,822,896	151,657,490	-	20,352,653	1,629,794	121,825	-	243,308,499	
3. Wholesale Price	77,668,609	5,78,475	181,988,988	-	27,476,082	2,200,222	146,190	-	295,267,566	(4)
4. Retail Sales Price	-	-	218,386,786	-	37,092,711	2,970,300	175,428	-	258,635,225	(5)
5. Sales Taxes:										
10% Tax	7,766,861	-	-	-	-	-	-	-	7,766,861	(6)
15% Tax	-	-	32,758,018	-	-	-	-	-	32,758,018	(7)
General Retail Sales Tax	-	-	-	-	1,901,820	152,293	2,095	-	2,056,208	
6. B&O Taxes:										
State Wholesale	-	-	-	-	-	-	-	-	1,299,177	(8)
Retail	-	-	-	-	-	-	-	-	1,137,951	(9)
8% Credit	-	-	-	-	-	-	-	-	(293,810)	(10)
Local Wholesale	-	-	-	-	-	-	-	-	295,268	(11)
Retail	-	-	-	-	-	-	-	-	258,625	(12)
7. Real and Personal Property Taxes										
Warehouse	-	-	-	-	-	-	-	-	51,100	(13)
Wholesale Inventory	-	-	-	-	-	-	-	-	170,120	(14)
Retail Inventory	-	-	-	-	-	-	-	-	174,598	(15)
Fixtures	-	-	-	-	-	-	-	-	28,337	(16)
8. License Fees	-	-	-	-	-	-	-	-	1,568,911	(17)
9. Miscellaneous Income	-	-	-	-	-	-	-	-	141,506	(18)
10. 30% Increase Enforcement	-	-	-	-	-	-	-	-	(1,198,295)	(19)
11. Total Net Revenue	-	-	-	-	-	-	-	-	\$104,316,391	

## NOTES:

- (1) Cost of Goods Sold breakdown for beer, wine and spirits - to FY 1982 breakdown for net sales. Spirits breakdown based on FY 1981 actuals
- (2) Breakdown based on cost of goods sold breakdown for spirits
- (3) Gallon tax to .2025 liter tax. FY 1981 + .07 percent after adjustment from .75 cents
- (4) Based on 20% mark-up for spirits and 35% mark-up for beer and wine
- (5) Based on 20% mark-up for spirits and 35% mark-up for beer and wine
- (6) 10 percent sales tax collected on wholesale price
- (7) 5.1272071% on wine and beer retail sales price. 76.71% alcohol exempt
- (8) State wholesale B&O tax = .0044% of wholesale price (item 3)
- (9) State retail B&O tax = .0044% of retail price (item 4)
- (10) Inventory Tax Credit against State B&O taxes = 85% of inventory taxes (item 7)
- (11) Local wholesale B&O tax = .0010% of wholesale price (item 3)
- (12) Local retail B&O tax = .0010% of retail price (item 4)
- (13) Increase of 15% over FY 1981 assessment X .0086 percent
- (14) Increase in inventory - to increase in net sales X .0086 percent
- (15) Increase in inventory - to increase in net sales X .0086 percent
- (16) Same value as FY 1981
- (17) Increased at same rate as increase in 21+ population
- (18) Increased at same rate as net sales
- (19) Increased at 10 percent on FY 1981

Washington State Free Enterprise Liquor Alternative  
Estimate of Private Sector Wholesale and  
Retail Liquor Taxes and Revenues  
(Based on WSLCB Actual and Projected Sales Only)  
Fiscal Year 1983

	Class H Spirits	Military Spirits	Other Spirits	Total Spirits	Wine	Beer	Alcohol	Other	Total	Notes
1. Cost of Goods Sold	\$51,044,657	45,224,075	\$119,626,020	\$175,894,752	\$20,933,396	\$1,894,003	\$134,007	-	\$198,856,158	(1)
Plus:										
\$1.72 liter Spirit Tax	17,907,774	-	41,560,619	59,868,394	-	-	-	-	59,868,394	(2)
20.25 cents liter Wine Tax	-	-	-	-	2,140,403	-	-	-	2,140,403	(3)
\$2.60 Barrel Beer Tax	-	-	-	-	-	59,104	-	-	59,104	(4)
2. Wholesale Mark-up Base	68,952,430	5,224,075	161,586,639	235,763,146	23,073,799	1,953,107	134,007	-	260,924,059	(5)
3. Wholesale Price	82,742,317	6,260,890	193,903,966	-	31,140,628	2,636,654	160,808	-	316,862,903	(6)
4. Retail Sales Price	-	-	232,684,759	-	42,051,997	3,559,536	197,969	-	278,489,211	(7)
5. Sales Taxes:										
10% Tax	8,274,291	-	34,902,713	-	-	-	-	-	8,274,291	(8)
15% Tax	-	-	-	-	-	-	-	-	34,902,713	(9)
General Retail Sales Tax	-	-	-	-	2,156,092	102,504	9,893	-	2,268,489	(10)
6. 860 Taxes:										
State Wholesale	-	-	-	-	-	-	-	-	1,394,196	(11)
Retail	-	-	-	-	-	-	-	-	1,225,352	(12)
95% Inventory Tax Credit	-	-	-	-	-	-	-	-	(328,049)	(13)
Local Wholesale	-	-	-	-	-	-	-	-	316,862	(14)
Retail	-	-	-	-	-	-	-	-	278,489	(15)
7. Real and Personal Property Taxes										
Warehouse	-	-	-	-	-	-	-	-	53,298	(16)
Wholesale Inventory	-	-	-	-	-	-	-	-	168,337	(17)
Retail Inventory	-	-	-	-	-	-	-	-	172,768	(18)
Fixtures	-	-	-	-	-	-	-	-	26,204	(19)
8. License Fees	-	-	-	-	-	-	-	-	1,752,473	(20)
9. Miscellaneous Income	-	-	-	-	-	-	-	-	153,519	(21)
10. 30% Increase Enforcement	-	-	-	-	-	-	-	-	(1,318,126)	(22)
11. Total Net Revenue	-	-	-	-	-	-	-	-	\$109,272,716	(23)

NOTES:

- (1) Cost of Goods Sold spread = to net sales spread FY 1983. Spirits breakdown based on FY 1981 actuals
- (2) Litter tax spread based on cost of goods sold spread FY 1983
- (3) Wine Tax = FY 1983 gallons projected X 76.65435 cents/gallon
- (4) Beer Tax = FY 1983 gallons projected + 31 X \$2.60/barrel
- (5) Whole price based on 20% mark-up for spirits and 35% mark-up for beer and wine
- (6) Retail price based on 20% mark-up for spirits and 35% mark-up for beer and wine
- (7) General Sales Tax = 5.1272071% on retail sales price of beer and wine. 76.71 percent alcohol exempt
- (8) State Wholesale 860 Tax = .0044% of wholesale price (item 3)
- (9) State Retail 860 Tax = .0044% of retail price (item 4)
- (10) Tax Inventory Tax Credit = 95% of inventory taxes (item 7)
- (11) Local Wholesale 860 Tax = .0010% of wholesale price (item 3)
- (12) Local Retail 860 Tax = .0010% of retail price (item 4)
- (13) Warehouse Assessed Value 15% increase over FY 1982. .0070% effective rate.
- (14) Increased by net sales percent increase X .0078% effective rate
- (15) Increased by net sales percent increase X .0078% effective rate
- (16) Increased by increase in population over 21
- (17) Same increase as net sales
- (18) 10% increase over FY 1982

Washington State Free Enterprise Liquor Alternative  
Estimate of Private Sector Wholesale and  
Retail Liquor Taxes and Revenues  
(Based on VSLCB Actual and Projected Sales Only)  
Fiscal Year 1984

	Class H Spirits	Military Spirits	Other Spirits	Total Spirits	Vine	Beer	Alcohol	Other	Total	Notes
1. Cost of Goods Sold	\$54,869,511	\$5,615,523	\$128,589,781	\$189,074,815	\$23,863,857	\$2,260,134	\$147,407	-	\$215,346,523	(1)
Plus:										
\$1.72 per Liter Spirits Tax	18,414,465	-	43,147,872	61,562,337	-	-	-	-	61,562,337	(2)
20.25 cent Liter Wine Tax	-	-	-	-	2,280,401	-	-	-	2,280,401	(3)
\$2.60 Barrel Beer Tax	-	-	-	-	-	67,490	-	-	67,490	(4)
2. Wholesale Mark-up Base	73,283,976	5,615,523	171,737,653	250,637,152	26,144,258	2,337,624	147,407	-	279,256,441	
3. Wholesale Price	87,940,771	6,738,627	206,085,183	-	35,294,748	3,142,292	176,888	-	339,378,653	(5)
4. Retail Sales Price	-	-	247,302,219	-	47,647,909	4,242,094	212,365	-	299,404,487	(6)
5. Sales Taxes										
10% Tax	8,794,077	-	-	-	-	-	-	-	8,794,077	
15% Tax	-	-	37,095,332	-	-	-	-	-	37,095,332	
General Retail Sales Tax	-	-	-	-	2,443,006	217,500	10,883	-	2,671,389	(7)
6. B&O Taxes:										
State Wholesale	-	-	-	-	-	-	-	-	1,493,266	(8)
Retail	-	-	-	-	-	-	-	-	1,337,379	(9)
100% Inventory Tax Credit	-	-	-	-	-	-	-	-	(170,487)	(10)
Local Wholesale	-	-	-	-	-	-	-	-	339,378	(11)
Retail	-	-	-	-	-	-	-	-	299,404	(12)
7. Real and Personal Property Taxes										
Wholesale	-	-	-	-	-	-	-	-	56,577	(13)
Inventory	-	-	-	-	-	-	-	-	84,135	(14)
Retail	-	-	-	-	-	-	-	-	86,332	(15)
Fixtures	-	-	-	-	-	-	-	-	18,866	
8. License Fees	-	-	-	-	-	-	-	-	1,954,007	(16)
9. Miscellaneous Income	-	-	-	-	-	-	-	-	166,246	(17)
10. 30% Increase Enforcement	-	-	-	-	-	-	-	-	(1,449,336)	(18)
11. Total Net Revenue									\$114,385,812	

NOTES:

- (1) Cost of Goods Sold spread = to net sales spread FY 1984
- (2) Liquor tax spread based on cost of goods sold spread FY 1984
- (3) Wine Tax = FY 1984 gallons projected X 76.65435 cents/gallon
- (4) Beer Tax = FY 1984 gallons projected + 31 X \$2.60/barrel
- (5) Whole price based on 20% mark-up for spirits and 35% mark-up for beer and wine
- (6) Retail price based on 20% mark-up for spirits and 35% mark-up for beer and wine
- (7) General Sales Tax = 5.1272071% on retail sales price of beer and wine. 76.71 percent alcohol exempt
- (8) State Wholesale B&O Tax = .0044% of wholesale price (item 3)
- (9) State Retail B&O Tax = .0044% of retail price (item 4)
- (10) Tax Inventory Tax Credit = 100% of inventory taxes (item 7)
- (11) Local Wholesale B&O Tax = .0010% of wholesale price (item 3)
- (12) Local Retail B&O Tax = .0010% of retail price (item 4)
- (13) Warehouse Assessed Value 15% increase over FY 1982 X .0072% effective rate
- (14) Increased by net sales percent increase X .0072% effective rate
- (15) Increased by net sales percent increase X .0072% effective rate
- (16) Increased by net sales percent increase X .0072% effective rate
- (17) Same increase as net sales
- (18) 10% increase over FY 1983

TABLE 6

Washington State Free Enterprise Liquor Alternative  
 Estimate of Private Sector Wholesale and  
 Retail Liquor Taxes and Revenues  
 (Based on VSLCB Actual and Projected Sales Only)  
 Fiscal Year 1985

	Class H Spirits	Military Spirits	Other Spirits	Total Spirits	Vine	Beer	Alcohol	Other	Total	Notes
1. Cost of Goods Sold	\$58,881,771	86,026,355	\$137,597,424	\$205,907,550	\$27,084,673	\$2,677,330	\$162,149	-	\$332,831,702	(1)
Plus:										
\$1.72 Liter Spirit Tax	18,854,157	-	44,295,296	63,149,453	-	-	-	-	63,199,453	(2)
20.25 cents Liter Wine Tax	-	-	-	-	2,418,859	-	-	-	2,418,859	(3)
\$2.60 Barrel Beer Tax	-	-	-	-	-	76,507	-	-	76,507	(4)
2. Wholesale Mark-up Base	77,737,928	6,026,355	182,292,720	266,057,003	29,503,532	2,753,837	162,149	-	298,476,523	
3. Wholesale Price	93,285,513	7,231,626	218,751,264	-	35,404,238	3,717,679	194,578	-	358,584,898	(5)
4. Retail Sales Price	-	-	262,501,516	-	47,795,721	5,018,866	233,493	-	315,549,596	(6)
5. Sales Taxes:										
10% Tax	9,328,551	-	-	-	-	-	-	-	9,328,551	
15% Tax	-	-	39,375,277	-	-	-	-	-	39,375,271	
General Retail Sales Tax	-	-	-	-	2,450,585	257,327	11,971	-	2,719,883	(7)
6. BEC Taxes:										
State Wholesale	-	-	-	-	-	-	-	-	1,577,773	(8)
Retail	-	-	-	-	-	-	-	-	1,388,418	(9)
Local Wholesale	-	-	-	-	-	-	-	-	358,584	(11)
Retail	-	-	-	-	-	-	-	-	315,549	(12)
7. Real and Personal Property Taxes										
Warehouse	-	-	-	-	-	-	-	-	61,444	(13)
Wholesale Inventory	-	-	-	-	-	-	-	-	-	
Retail Inventory	-	-	-	-	-	-	-	-	17,818	
Fixtures	-	-	-	-	-	-	-	-	2,170,902	(16)
8. License Fees	-	-	-	-	-	-	-	-	179,745	(17)
9. Miscellaneous Income	-	-	-	-	-	-	-	-	(1,594,929)	(18)
10. 30% Increase Enforcement	-	-	-	-	-	-	-	-	\$19,174,969	
11. Total Net Revenue										

## NOTES:

- (1) Cost of Goods Sold spread = to net sales spread FY 1985  
 (2) Litter tax spread based on cost of goods sold spread FY 1985  
 (3) Vine Tax = FY 1985 gallons projected x 76.65435 cents/gallon  
 (4) Beer Tax = FY 1985 gallons projected x 31 X \$2.60/barrel  
 (5) Whole price based on 20% mark-up for spirits and 35% mark-up for beer and wine  
 (6) Retail price based on 20% mark-up for spirits and 35% mark-up for beer and wine  
 (7) General Sales Tax = 5.1272071% on retail sales price of beer and wine  
 (8) State Wholesale BEC Tax = .0044% of wholesale price (item 3)  
 (9) State Retail BEC Tax = .0044% of retail price (item 4)  
 (10) Local Wholesale BEC Tax = .0010% of wholesale price (item 3)  
 (11) Local Retail BEC Tax = .0010% of retail price (item 4)  
 (12) Warehouse Assessed Value 15% increase over FY 1982 x .0068% effective rate  
 (13) Increased by increase in population over 21  
 (14) Same increase as net sales  
 (15) 10% increase over FY 1984  
 (16) 10% increase over FY 1984

Washington State Free Enterprise Liquor Alternative  
Estimate of Private Sector Wholesale and  
Retail Liquor Taxes and Revenues  
(Based on VSLCB Actual and Projected Sales Only)  
Fiscal Year 1986

Class	Military Spirits	Other Spirits	Total Spirits	Vine	Beer	Alcohol	Other	Total	Notes
1. Cost of Goods Sold	\$63,059,890	\$6,453,666	\$147,782,085	\$217,294,641	\$3,141,100	\$178,363	-	\$251,197,019	(1)
Plus:									
\$1.72 Liter Spirit Tax	-	-	-	-	-	-	-	-	(2)
20.25 cents Liter Wine Tax	-	45,377,624	64,743,693	-	-	-	-	64,743,693	(3)
\$2.60 Barrel Beer Tax	-	-	-	2,552,545	85,895	-	-	2,552,545	(4)
2. Wholesale Mark-up Base	82,424,959	6,453,666	193,159,709	33,134,860	3,226,995	178,363	-	318,578,552	
3. Wholesale Price	98,691,550	7,491,550	231,791,650	-	44,732,061	214,035	-	387,277,289	(5)
4. Retail Sales Price	-	-	277,414,980	-	60,388,282	5,881,198	-	343,941,302	(6)
5. Sales Taxes:									
10% Tax	9,869,155	-	-	-	-	-	-	9,869,155	
15% Tax	-	41,612,247	-	-	-	-	-	41,612,247	
General Retail Sales Tax	-	-	-	3,096,232	301,501	13,168	-	3,410,901	(7)
6. B&O Taxes:									
State Wholesale	-	-	-	-	-	-	-	1,704,620	(8)
Retail	-	-	-	-	-	-	-	1,513,341	(9)
Local Wholesale	-	-	-	-	-	-	-	387,277	(11)
Retail	-	-	-	-	-	-	-	343,941	(12)
7. Real and Personal Property Taxes	-	-	-	-	-	-	-	67,548	(13)
Warehouse	-	-	-	-	-	-	-	-	
Wholesale Inventory	-	-	-	-	-	-	-	-	
Retail Inventory	-	-	-	-	-	-	-	-	
Fixtures	-	-	-	-	-	-	-	17,032	
8. License Fees	-	-	-	-	-	-	-	2,396,676	(16)
9. Miscellaneous Income	-	-	-	-	-	-	-	193,909	(17)
0. 10% Increase Enforcement	-	-	-	-	-	-	-	(1,754,422)	(18)
Total Net Revenue								\$124,591,213	

NOTES:

(1) Cost of Goods Sold spread = to net sales spread FY 1986

(2) Litter Tax spread based on cost of goods sold spread FY 1986

(3) Wine Tax = FY 1986 gallons projected X .76.65435 cents/gallon

(4) Beer Tax = FY 1986 gallons projected X .31 X \$2.60/barrel

(5) Wholesale price based on 20% mark-up for spirits and 35% mark-up for beer and wine

(6) Retail price based on 20% mark-up for spirits and 35% mark-up for beer and wine

(7) General Sales Tax = 5.1272071% on retail sales price of beer and wine. 76.71 percent alcohol exempt

(8) State Wholesale B&O Tax = .0044% of wholesale price (item 3)

(9) State Retail B&O Tax = .0044% of retail price (item 4)

(10) Local Wholesale B&O Tax = .0010% of wholesale price (item 3)

(11) Local Retail B&O Tax = .0010% of retail price (item 4)

(12) Warehouse Assessed Value 15% increase over FY 1982 X .0065% effective rate

(13) Increased by increase in population over 21

(14) Same increase as net sales

(15) 10% increase over FY 1985

TABLE 8

Washington State Free Enterprise Liquor Alternative  
 Estimate of Private Sector Wholesale and  
 Retail Liquor Taxes and Revenues  
 (Based on WSLCB Actual and Projected Sales Only)  
 Fiscal Year 1987

	Class H Spirits	Military Spirits	Other Spirits	Total Spirits	Vine	Beer	Alcohol	Other	Total	Notes
1. Cost of Goods Sold	\$67,416,914	\$6,899,694	\$157,995,389	\$232,311,997	\$34,447,459	\$3,657,958	\$196,200	-	\$270,613,614	(1)
Plus:										
\$1.72 Liter Spirit Tax	19,805,707	-	46,407,764	66,213,471	-	-	-	-	66,213,471	(2)
20.25 cents Liter Vine Tax	-	-	-	-	2,687,055	-	-	-	2,687,055	(3)
\$2.60 Barrel Beer Tax	-	-	-	-	-	95,721	-	-	95,721	(4)
2. Wholesale Mark-up Base	87,222,621	6,899,694	204,403,153	298,525,468	37,134,514	3,753,679	196,200	-	339,659,861	
3. Wholesale Price	104,667,145	8,279,632	245,288,783	-	50,131,593	5,067,466	235,440	-	416,670,059	(5)
4. Retail Sales Price	-	-	294,346,539	-	67,677,650	6,841,079	282,528	-	369,147,796	(6)
5. Sales Taxes:										
10% Tax	10,466,714	-	-	-	-	-	-	-	10,466,714	
15% Tax	-	-	44,151,980	-	-	-	-	-	44,151,980	
General Retail Sales Tax	-	-	-	-	3,469,973	350,756	14,485	-	3,835,214	(7)
6. BEC Taxes:										
State Wholesale	-	-	-	-	-	-	-	-	1,833,348	(8)
Retail	-	-	-	-	-	-	-	-	1,624,250	(9)
Local Wholesale	-	-	-	-	-	-	-	-	416,670	(11)
Retail	-	-	-	-	-	-	-	-	369,147	(12)
7. Real and Personal Property Taxes										
Warehouse	-	-	-	-	-	-	-	-	74,096	(13)
Wholesale Inventory	-	-	-	-	-	-	-	-	-	
Retail Inventory	-	-	-	-	-	-	-	-	-	
Fixtures	-	-	-	-	-	-	-	-	16,246	
8. License Fees	-	-	-	-	-	-	-	-	2,633,947	(16)
9. Miscellaneous Income	-	-	-	-	-	-	-	-	208,769	(17)
10. 30% Increase Enforcement	-	-	-	-	-	-	-	-	(1,929,864)	(18)
11. Total Net Revenue									\$130,009,709	

## NOTES:

- (1) Cost of Goods Sold spread = to net sales spread FY 1987  
 (2) Liter Tax spread based on cost of goods sold spread FY 1987  
 (3) Wine Tax = FY 1987 gallons projected X 76.65435 cents/gallon  
 (4) Beer Tax = FY 1987 gallons projected X 31 X \$2.60/barrel  
 (5) Whole price based on 20% mark-up for spirits and 35% mark-up for beer and wine  
 (6) Retail price based on 20% mark-up for spirits and 35% mark-up for beer and wine  
 (7) General Sales Tax = 5.1272071% on retail sales price of beer and wine. 76.71 percent alcohol exempt  
 (8) State Wholesale BEC Tax = .0044% of wholesale price (item 3)  
 (9) State Retail BEC Tax = .0044% of retail price (item 4)  
 (10) Local Wholesale BEC Tax = .0010% of wholesale price (item 3)  
 (11) Local Retail BEC Tax = .0010% of retail price (item 4)  
 (12) Warehouse Assessed Value 15% increase over FY 1982 X .00622 effective rate  
 (13) Same increase as net sales  
 (14) Increased by increase in population over 21  
 (15) Same increase as net sales  
 (16) 10% increase over FY 1986  
 (17) 10% increase over FY 1986  
 (18) 10% increase over FY 1986



TABLE 9

Washington State Free Enterprise Liquor Alternative  
 Estimate of Private Sector Wholesale and  
 Retail Liquor Taxes and Revenues  
 (Based on WSLCB Actual and Projected Sales Only)  
 Fiscal Year 1988

	Class H Spirits	Military Spirits	Other Spirits	Total Spirits	Vine	Beer	Alcohol	Other	Total	Notes
1. Cost of Goods Sold	\$71,983,392	\$7,367,012	\$168,697,122	\$248,047,526	\$38,615,355	\$4,235,401	\$215,820	-	\$291,114,102	(1)
Plus:										
\$1.72 Liter Spirit Tax	20,283,125	-	47,347,150	67,630,275	2,815,114	-	-	-	67,630,275	(2)
20.25 Cents Liter Wine Tax	-	-	-	-	-	106,059	-	-	2,815,114	(3)
\$2.60 Barrel Beer Tax	-	-	-	-	-	-	-	-	106,059	(4)
2. Wholesale Mark-up Base	92,266,517	7,367,012	216,644,272	315,677,801	41,430,469	4,369,516	215,781	-	361,693,567	(5)
3. Wholesale Price	110,719,820	8,840,414	259,253,126	-	55,931,133	5,898,846	258,931	-	440,902,276	(6)
4. Retail Sales Price	-	-	311,103,751	-	75,507,029	7,963,442	310,724	-	394,884,946	(7)
5. Sales Taxes:										
10% Tax	11,017,198	-	46,665,562	-	-	-	-	-	11,017,198	(8)
15% Tax	-	-	-	-	-	-	-	-	46,665,562	(9)
General Retail Sales Tax	-	-	-	-	3,871,401	408,302	15,931	-	4,291,634	(10)
6. B&O Taxes:										
State Wholesale	-	-	-	-	-	-	-	-	1,939,270	(11)
Retail	-	-	-	-	-	-	-	-	1,737,493	(12)
Local Wholesale	-	-	-	-	-	-	-	-	440,902	(13)
Retail	-	-	-	-	-	-	-	-	394,884	(14)
7. Real and Personal Property Taxes										
Warehouse	-	-	-	-	-	-	-	-	79,709	(15)
Wholesale Inventory	-	-	-	-	-	-	-	-	-	(16)
Retail Inventory	-	-	-	-	-	-	-	-	15,198	(17)
Fixtures	-	-	-	-	-	-	-	-	2,921,574	(18)
8. License fees	-	-	-	-	-	-	-	-	224,659	(19)
9. Miscellaneous Income	-	-	-	-	-	-	-	-	(2,122,851)	(20)
10. 30% Increase Enforcement	-	-	-	-	-	-	-	-	\$135,342,266	(21)
11. Total Net Revenue										

## NOTES:

- (1) Cost of Goods Sold spread = to net sales spread FY 1988
- (2) Liter tax spread based on cost of goods sold spread FY 1988
- (3) Wine Tax = FY 1988 gallons projected x 31 x \$2.60/gallon
- (4) Beer Tax = FY 1988 gallons projected + 31 x \$2.60/barrel
- (5) Whole price based on 20% mark-up for spirits and 35% mark-up for beer and wine
- (6) Retail price based on 20% mark-up for spirits and 35% mark-up for beer and wine
- (7) General Sales Tax = 5.127071% on retail sales price of beer and wine
- (8) State Wholesale B&O Tax = .0044% of wholesale price (item 3)
- (9) State Retail B&O Tax = .0044% of retail price (item 4)
- (10) Local Wholesale B&O Tax = .0010% of wholesale price (item 3)
- (11) Local Retail B&O Tax = .0010% of retail price (item 4)
- (12) Warehouse Assessed Value 15% Increase over FY 1982 x .0058% effective rate
- (13) Increased by increase in population over 21
- (14) Same increase as net sales
- (15) 10% Increase over FY 1987
- (16) 10% Increase over FY 1987

TABLE 10

Washington State Free Enterprise Liquor Alternative  
 Estimate of Private Sector Wholesale and  
 Retail Liquor Taxes and Revenues  
 (Based on WSLCB Actual and Projected Sales Only)  
 Fiscal Year 1989

	Class M Spirits	Military Spirits	Other Spirits	Total Spirits	Wine	Beer	Alcohol	Other	Total	Notes
1. Cost of Goods Sold	\$76,797,136	\$7,859,666	\$179,978,402	\$264,635,204	\$43,197,806	\$4,885,935	\$237,402	-	\$312,956,347	(1)
Plus:										
\$1.72 Liter Spirit Tax	20,645,384	-	48,375,252	69,020,636	-	-	-	-	69,020,636	(2)
20.25 cents Liter Wine Tax	-	-	-	-	2,942,398	-	-	-	2,942,398	(3)
\$2.60 Barrel Beer Tax	-	-	-	-	-	117,078	-	-	117,078	(4)
2. Wholesale Mark-up Base	97,442,520	7,859,666	228,353,654	333,655,840	46,140,204	5,003,013	237,402	-	385,036,459	
3. Wholesale Price	116,931,024	9,431,599	274,024,384	-	62,289,275	6,754,067	284,882	-	469,715,231	(5)
4. Retail Sales Price	-	-	328,829,260	-	84,090,521	9,117,990	341,850	-	422,379,629	(6)
5. Sales Taxes:										
10% Tax	11,693,112	-	-	-	-	-	-	-	11,693,112	
15% Tax	-	-	49,324,389	-	-	-	-	-	49,324,389	
General Retail Sales Tax	-	-	-	-	4,311,495	467,498	17,520	-	4,796,513	(7)
6. BEC Taxes:										
State Wholesale	-	-	-	-	-	-	-	-	2,066,747	(8)
Retail	-	-	-	-	-	-	-	-	1,858,470	(9)
Local Wholesale	-	-	-	-	-	-	-	-	469,715	(11)
Retail	-	-	-	-	-	-	-	-	422,379	(12)
7. Real and Personal Property Taxes										
Warehouse	-	-	-	-	-	-	-	-	85,347	(13)
Wholesale Inventory	-	-	-	-	-	-	-	-	-	
Retail Inventory	-	-	-	-	-	-	-	-	-	
Fixtures	-	-	-	-	-	-	-	-	14,412	
8. License Fees	-	-	-	-	-	-	-	-	3,193,280	(16)
9. Miscellaneous Income	-	-	-	-	-	-	-	-	241,533	(17)
10. 30% Increase Enforcement	-	-	-	-	-	-	-	-	(2,335,136)	(18)
11. Total Net Revenue									\$140,968,485	

## NOTES:

- (1) Cost of Goods Sold spread = to net sales spread FY 1989  
 (2) Litter Tax spread based on cost of goods sold spread FY 1989  
 (3) Wine Tax = FY 1989 gallons projected X 76.65435 cents/gallon  
 (4) Beer Tax = FY 1989 gallons projected X 31 X \$2.60/barrel  
 (5) Whole price based on 20% mark-up for spirits and 35% mark-up for beer and wine  
 (6) Retail price based on 20% mark-up for spirits and 35% mark-up for beer and wine  
 (7) General Sales Tax = 5.127207% on retail sales price of beer and wine. 76.71 percent alcohol exempt  
 (8) State Wholesale BEC Tax = .004% of wholesale price (item 3)  
 (9) State Retail BEC Tax = .004% of retail price (item 4)  
 (10) Local Wholesale BEC Tax = .001% of wholesale price (item 3)  
 (11) Local Retail BEC Tax = .001% of retail price (item 4)  
 (12) Warehouse Assessed Value 15% increase over FY 1982 X .005% effective rate  
 (13) Same increase as net sales  
 (14) Increased by increase in population over 21  
 (15) Same increase as net sales  
 (16) 10% increase over FY 1988  
 (17) 10% increase over FY 1988  
 (18) 10% increase over FY 1988

## APPENDIX E

### Washington State Liquor Control Comparative Summary of Present State Liquor Control Revenue Estimates vs. Free Enterprise Control System Revenue Estimates FY 1981 - FY 1989

#### Comparative Difference in Liquor Revenue Estimates between Present State Liquor Control System and a fully Licensed Free Enterprise Control System.

Liquor revenue estimates presented in Appendix C and D are assembled and compared by liquor revenue source for each year, FY 1981 - FY 1989. The yearly totals for each system are distributed by established formula to state and local government and the differences are calculated for comparison. In addition, the total annual figures are summarized in Table 1 for the nine year period. The state and local government shares of the totals are summarized in Table 2.

The annual percentage decrease is also summarized in Tables 1 and 2 together with the percentage increase in hard liquor consumption necessary to make-up the revenue difference.

Table 1. Ten Year Summary Comparison of Present Liquor Control System Revenue Estimates vs. Free Enterprise System Revenue Estimates, FY 1981 - FY 1989-- Total Revenues.

Table 2. Ten Year Summary Comparison of Present Liquor Control System Revenue Estimates vs. Free Enterprise System Revenue Estimates, FY 1981 - FY 1989-- State and Local Governments Share.

Table 3. Summary of Present Liquor Control System Revenue Estimates vs. Free Enterprise System Revenue Estimates Difference, FY 1981 by Source.

Table 4. Summary of Present Liquor Control System Revenue Estimates vs. Free Enterprise System Revenue Estimates Difference, FY 1982 by Source.

Table 5. Summary of Present Liquor Control System Revenue Estimates vs. Free Enterprise System Revenue Estimates Difference, FY 1983 by Source.

Table 6. Summary of Present Liquor Control System Revenue Estimates vs. Free Enterprise System Revenue Estimates Difference, FY 1984 by Source.

Table 7. Summary of Present Liquor Control System Revenue Estimates vs. Free Enterprise System Revenue Estimates Difference, FY 1985 by Source.

Table 8. Summary of Present Liquor Control System Revenue Estimates vs. Free Enterprise System Revenue Estimates Difference, FY 1986 by Source.

Table 9. Summary of Present Liquor Control System Revenue Estimates vs. Free Enterprise System Revenue Estimates Difference, FY 1987 by Source.

**Table 10. Summary of Present Liquor Control System Revenue Estimates vs. Free Enterprise System Revenue Estimates Difference, FY 1988 by Source.**

**Table 11. Summary of Present Liquor Control System Revenue Estimates vs. Free Enterprise System Revenue Estimates Difference, FY 1989 by Source.**

**TABLE 1**

**Washington State Ten Year Summary  
Comparison of Present Liquor Control System Revenue Estimates vs.  
Free Enterprise System Revenue Estimates\*  
FY 1981 - FY 1989**

<u>Fiscal Year</u>	<u>Total Revenues</u>		<u>Difference</u>	<u>Percent Decrease</u>	<u>Increase** Necessary</u>
	<u>Present Control System</u>	<u>Free Enterprise System</u>			
1981	\$110,411,553	\$ 84,892,972	(\$25,518,585)	23.11%	31.09%
1982	130,471,894	104,351,921	(26,119,973)	20.01	25.78
1983	137,825,881	109,272,316	(28,553,525)	20.53	26.93
1984	145,090,076	114,385,812	(30,704,264)	21.16	27.73
1985	152,640,912	119,174,969	(33,465,943)	21.92	28.96
1986	160,441,938	124,591,213	(35,850,725)	22.34	29.83
1987	167,423,902	130,009,709	(37,414,194)	22.35	29.91
1988	175,069,057	135,342,266	(39,726,791)	22.69	30.59
1989	183,059,045	140,968,485	(42,090,560)	22.99	31.21

\*Based on present liquor control system net sales for same period.

\*\*Increase consumption of spirits necessary to make up revenue difference.

TABLE 2

Washington State Ten Year Summary Comparison of  
Present Liquor Control System Revenue Estimates vs.  
Free Enterprise System Revenue Estimates\*  
FY 1981 - FY 1989

State's Share of Revenues

<u>Fiscal Year</u>	<u>Present Control System</u>	<u>Free Enterprise System</u>	<u>Difference</u>	<u>Percent Decrease</u>	<u>Increase** Necessary</u>
1981	\$ 81,957,058	\$ 71,105,425	(\$10,851,639)	13.23%	15.70%
1982	99,415,098	88,760,469	(10,654,629)	10.71	12.30
1983	104,420,927	92,642,131	(11,778,811)	11.28	13.02
1984	109,362,338	96,778,063	(12,584,275)	11.81	13.38
1985	114,446,547	100,604,495	(13,842,052)	12.09	14.15
1986	119,634,103	104,846,279	(14,787,825)	12.36	14.58
1987	124,404,389	109,005,602	(15,398,787)	12.37	14.64
1988	129,510,181	113,088,366	(16,421,806)	12.68	15.09
1989	134,812,805	117,373,330	(17,439,475)	12.93	15.48

Local Government's Share of Revenues

<u>Fiscal Year</u>	<u>Present Control System</u>	<u>Free Enterprise System</u>	<u>Difference</u>	<u>Percent Decrease</u>	<u>Increase** Necessary</u>
1981	\$ 28,454,495	\$ 13,787,547	(\$14,666,959)	51.54%	113.22%
1982	31,056,796	15,591,452	(15,465,344)	49.79	104.93
1983	33,404,943	16,630,185	(16,774,725)	50.22	106.79
1984	35,727,738	17,607,749	(18,119,989)	51.71	108.50
1985	38,194,365	18,570,474	(19,623,891)	51.38	110.11
1986	40,807,834	19,744,935	(21,062,899)	51.61	112.34
1987	43,019,513	21,004,107	(22,015,407)	51.18	110.62
1988	45,558,876	22,253,900	(23,304,984)	51.15	110.84
1989	48,246,240	23,595,155	(24,651,084)	51.09	110.75

\*Based on present liquor control system net sales for same period.

\*\*Increased consumption of spirits necessary to make up revenue difference.

TABLE 3

Washington State Liquor Control System  
Summary of Present Liquor Control System - Revenue Estimates vs.  
Free Enterprise System - Revenue Estimates: Difference by Revenue Source  
Fiscal Year 1981

	Present Control System			Free Enterprise System			Increase or Decrease		Distribution	
	Actual Total	State	Distribution Local	Estimate Total	State	Distribution Local	Diff. Total	State	Local	Formula State Local
1. 4 cent ounce tax	\$ 44,063,628	\$ 44,063,628	-	\$ 44,063,628	\$ 44,063,628	-	0	0	0	100
2. 10 & 15 percent sales tax	28,272,088	18,376,858	\$ 9,895,230	55,618,502	23,152,026	\$ 12,466,475	\$ 7,346,414	\$ 4,775,169	\$ 2,571,245	65 35
3. General Retail Sales Tax	1,329,594	1,143,451	186,143	1,823,473	1,568,186	255,287	493,879	424,736	69,143	86 14
4. Net Profit Merchandising Div. before other income	37,492,648	18,746,324	18,746,324	-	-	-	(37,492,648)	(18,746,324)	(18,746,324)	50 50
5. Other Merchandising Div. Income	276,944	138,472	138,472	130,086	65,043	65,043	(146,858)	(73,429)	(73,429)	50 50
6. Increase in Working Capital	(2,143,471)	1,071,736	(1,071,735)	-	-	-	2,143,471	1,071,735	1,071,735	50 50
7. Interest Income	1,120,122	560,061	560,061	-	-	-	(1,120,122)	(560,061)	(560,061)	50 50
8. Beer Tax	-	-	-	25,526	12,763	12,763	25,526	12,763	12,763	50 50
9. License Fees	-	-	-	1,522,600	761,300	761,300	1,522,600	761,300	761,300	50 50
10. B&O Taxes	-	-	-	2,374,853	1,887,242	487,611	2,374,853	1,887,242	487,611	See Tables*
11. Real and Personal Property Taxes	-	-	-	423,029	139,599	283,430	423,029	139,599	283,430	33 67
12. Increased Enforcement Costs	-	-	-	-	-	-	(1,088,725)	(544,362)	(544,362)	50 50
13. Total Revenue	\$110,411,553	\$ 81,957,058	\$28,454,495	\$ 84,892,972	\$ 71,105,425	\$ 13,787,547	\$ 25,518,583	\$ 10,851,639	\$14,666,951	-
14. Increase or Decrease - 3							(23,112)	(13,233)	(51,548)	
15. Increase Necessary to make-up difference - 3 (4 cent tax, 10 and 151 tax, B&O tax)							31,098	15,702	113,222	

\*Refer to Appendix D, TABLE 1



TABLE 4

Washington State Liquor Control System  
Summary of Present Liquor Control System - Revenue Estimates vs.  
Free Enterprise System - Revenue Estimates: Difference by Revenue Source  
Fiscal Year 1982

	Present Control System			Free Enterprise System			Increase or Decrease		Distribution	
	Actual Total	State	Distribution Local	Estimate Total	State	Distribution Local	Diff. Total	State	Distribution Local	Formula State Local
1. \$1.72 liter tax	\$ 58,085,075	\$ 58,085,075	-	\$ 58,085,075	\$ 58,085,075	-	0	0	0	100
2. 10 & 15 percent sales tax	30,569,916	19,928,945	\$10,730,971	40,524,879	26,341,171	\$14,183,708	\$ 9,864,963	\$ 6,412,226	\$ 3,452,747	65
3. General Retail Sales Tax	1,493,409	1,284,332	209,077	2,056,208	1,768,338	287,870	562,799	484,006	78,793	86
4. Net Profit Merchandising Div. before other income	39,953,055	19,976,527	19,976,528	-	-	-	(39,953,055)	(19,976,527)	(19,976,528)	50
5. Other Merchandising Div. Income	301,419	150,709	150,710	141,506	70,753	70,753	(159,913)	(79,956)	(79,956)	50
6. Increase in Working Capital	(1,240,095)	(620,047)	(620,048)	-	-	-	1,240,095	620,047	620,048	50
7. Interest Income	1,219,115	609,557	609,558	-	-	-	(1,219,115)	(609,557)	(609,558)	50
8. Beer Tax	-	-	-	51,471	25,735	25,736	51,471	25,735	25,736	50
9. License Fees	-	-	-	1,568,911	784,456	784,456	1,568,911	784,455	784,456	50
10. 860 Taxes	-	-	-	2,698,011	2,144,118	553,893	2,698,011	2,144,118	553,893	See Tables*
11. Real and Personal Property Taxes	-	-	-	424,155	139,971	284,184	424,155	139,971	284,184	33
12. Increased Enforcement Costs	-	-	-	(1,198,295)	(599,147)	(599,148)	(1,198,295)	(599,147)	(599,148)	50
13. Total Revenue	\$130,471,894	\$ 99,415,098	\$31,456,796	\$104,351,921	\$ 86,760,469	\$ 15,591,452	\$ 26,119,973	\$ 10,654,629	\$ 15,465,344	-
14. Increase or Decrease - 3							(20,012)	(10,712)	(49,792)	-
15. Increase Necessary to make-up difference - 3 (\$1.72 liter tax, 10 and 15% tax, 860 tax)							25,788	12,302	104,932	-

\*Refer to Appendix D, TABLE 1

TABLE 5

Washington State Liquor Control System  
Summary of Present Liquor Control System - Revenue Estimates vs.  
Free Enterprise System - Revenue Estimates: Difference by Revenue Source  
Fiscal Year 1983

	Present Control System			Free Enterprise System			Increase or Decrease			Distribution	
	Actual	State	Distribution	Estimate	State	Distribution	Diff.	State	Distribution	Formula	Local
	Total		Local	Total		Local	Total		Local	State	Total
1. \$1.72 liter tax	\$ 59,868,394	\$ 59,868,394	-	\$ 59,868,394	\$ 59,868,394	-	0	0	0	100	-
2. 10 & 15 percent sales tax	33,061,397	21,489,908	\$11,571,488	43,177,004	28,065,052	\$15,111,952	\$ 10,115,647	\$ 6,575,144	\$ 3,540,503	65	35
3. General Retail Sales Tax	1,707,197	1,468,189	239,008	2,268,489	1,950,900	317,589	561,292	482,711	78,581	86	14
4. Net Profit Merchandising Div. before other income	42,838,474	21,419,237	21,419,237	-	-	-	(42,838,474)	(21,419,237)	(21,419,237)	50	50
5. Other Merchandising Div. Income	327,067	163,533	163,534	153,519	76,759	76,760	(173,548)	(86,774)	(86,774)	50	50
6. Increase in Working Capital	(1,299,498)	(649,749)	(649,749)	-	-	-	1,299,498	649,749	649,749	50	50
7. Interest Income	1,322,850	661,425	661,425	-	-	-	(1,322,850)	(661,425)	(661,425)	50	50
8. Beer Tax	-	-	-	59,104	29,552	29,552	59,104	29,552	29,552	50	50
9. License Fees	-	-	-	1,752,473	876,236	876,237	1,752,473	876,231	876,231	50	50
10. B&O Taxes	-	-	-	2,890,850	2,295,499	595,351	2,890,850	2,295,499	595,351	See Tables*	
11. Real and Personal Property Taxes	-	-	-	420,607	138,801	281,806	420,607	138,801	281,806	33	67
12. Increased Enforcement Costs	-	-	-	(1,318,124)	(659,062)	(659,062)	(1,318,124)	(659,062)	(659,062)	50	50
13. Total Revenue	\$137,835,881	\$104,420,927	\$33,404,963	\$109,272,316	\$ 92,642,131	\$ 16,630,185	\$ 28,553,525	\$ 11,778,811	\$16,774,725	-	-
14. Increase or Decrease - 2							(20,531)	(11,288)	(50,228)		
15. Increase Necessary to make-up difference - 2 (\$1.72 liter tax, 10 and 15% tax, B&O tax)							26,938	13,028	106,798		

\*Refer to Appendix D, TABLE 1

TABLE 6

Washington State Liquor Control System  
Summary of Present Liquor Control System - Revenue Estimates vs.  
Free Enterprise System - Revenue Estimate: Difference by Revenue Source  
Fiscal Year 1984

	Present Control System			Free Enterprise System			Increase or Decrease			Distribution Formula State - Local
	Actual Total	State	Distribution Local	Estimate Total	State	Distribution Local	Diff. Total	State	Distribution Local	
1. \$1.72 liter tax	\$ 61,562,337	\$ 61,562,337	-	\$ 61,562,337	\$ 61,562,337	-	0	0	0	100
2. 10 & 15 percent sales tax	35,570,971	23,121,131	\$12,449,840	45,889,409	29,828,115	\$ 16,061,294	\$ 10,318,438	\$ 6,706,984	\$ 3,611,454	65
3. General Retail Sales Tax	1,945,797	1,673,385	272,412	2,671,389	2,297,394	373,995	725,592	624,009	101,583	86
4. Net Profit Merchandising Div. before other income	45,598,430	22,799,215	22,799,215	-	-	-	(45,598,430)	(22,799,215)	(22,799,215)	50
5. Other Merchandising Div. Income	354,189	177,094	177,095	166,246	83,123	83,123	(187,943)	(93,971)	(93,972)	50
6. Increase in Working Capital	(1,374,197)	(687,098)	(687,099)	-	-	-	1,374,197	687,098	687,099	50
7. Interest Income	1,432,549	716,274	716,275	-	-	-	(1,432,549)	(716,274)	(716,275)	50
8. Beer Tax	-	-	-	67,450	33,745	33,745	67,450	33,745	33,745	50
9. License Fees	-	-	-	1,954,007	977,003	977,004	1,954,007	977,003	977,004	50
10. B&O Taxes	-	-	-	3,278,940	2,640,158	638,782	3,278,940	2,640,158	638,782	See Tables*
11. Real and Personal Property Taxes	-	-	-	245,930	81,156	164,774	245,930	81,156	164,774	33
12. Increased Enforcement Costs	-	-	-	(1,449,936)	(724,968)	(724,968)	(1,449,936)	(724,968)	(724,968)	50
13. Total Revenue	\$145,090,076	\$109,362,338	\$35,727,738	\$114,385,812	\$6,778,063	\$ 17,607,749	\$ 30,704,264	\$ 12,584,275	\$18,119,989	-
14. Increase or Decrease - \$							(21,168)	(11,818)	(51,712)	-
15. Increase Necessary to make-up difference - \$ (\$1.72 liter tax, 10 and 15% tax, B&O tax)							27,738	13,388	108,508	-

\*Refer to Appendix D, TABLE 1

TABLE 7  
Washington State Liquor Control System  
Summary of Present Liquor Control System - Revenue Estimates vs.  
Free Enterprise System - Revenue Estimates: Difference by Revenue Source  
Fiscal Year 1985

	Present Control System			Free Enterprise System			Increase or Decrease		Distribution		Distribution Formula
	Actual Total	State	Distribution Local	Estimate Total	State	Distribution Local	Diff. Total	State	Distribution Local	State	Local
1. \$1.72 liter tax	\$ 63,199,453	\$ 63,199,453	-	\$ 63,199,453	\$ 63,199,453	-	0	0	0	100	-
2. 10 & 15 percent sales tax	38,209,821	24,836,383	\$13,373,438	48,703,822	31,657,484	\$17,046,338	\$ 10,494,001	\$ 6,821,101	\$ 3,672,900	65	35
3. General Retail Sales Tax	2,208,037	1,898,911	309,126	2,719,883	2,339,099	380,784	511,846	440,188	71,658	86	14
4. Net Profit Merchandising Div. before other income	48,548,886	24,274,443	24,274,443	-	-	-	(48,548,886)	(24,274,443)	(24,274,443)	50	50
5. Other Merchandising Div. Income	382,548	191,474	191,474	179,745	89,872	89,873	(203,203)	(101,602)	(101,601)	50	50
6. Increase in Working Capital	(1,457,090)	(728,549)	(728,549)	-	-	-	1,457,098	728,549	728,549	50	50
7. Interest Income	1,548,865	774,432	774,433	-	-	-	(1,548,865)	(774,432)	(774,433)	50	50
8. Beer Tax	-	-	-	76,507	38,253	38,254	76,507	38,253	38,254	50	50
9. License Fees	-	-	-	2,170,902	1,085,451	1,085,451	2,170,902	1,085,451	1,085,451	50	50
10. B&O Taxes	-	-	-	3,640,324	2,966,191	674,133	3,640,324	2,966,191	674,133	See Table 8	
11. Real and Personal Property Taxes	-	-	-	79,262	26,156	53,106	79,262	26,156	53,106	33	67
12. Increased Enforcement Costs	-	-	-	(1,594,929)	(797,464)	(797,464)	(1,594,929)	(797,464)	(797,465)	50	50
13. Total Revenue	\$152,640,912	\$114,406,547	\$38,194,365	\$119,174,969	\$100,604,495	\$18,570,474	(\$ 33,465,943)	(\$ 13,842,052)	(\$19,623,891)	-	-
14. Increase or Decrease - \$							(21,932)	(12,092)	(51,382)		
15. Increase Necessary to make-up difference - \$ (\$1.72 liter tax, 10 and 15 tax, B&O tax)							28,962	14,152	110,112		

Refer to Appendix D, TABLE 1

TABLE 8

Washington State Liquor Control System  
Summary of Present Liquor Control System - Revenue Estimates vs.  
Free Enterprise System - Revenue Estimates, Difference by Revenue Source  
Fiscal Year 1986

	Present Control System			Free Enterprise System			Increase or Decrease			Distribution	
	Actual Total	State	Distribution Local	Estimate Total	State	Distribution Local	Diff. Total	State	Distribution	State	Local
1. \$1.72 liter tax	\$ 64,743,693	\$ 64,743,693	-	\$ 64,743,693	\$ 64,743,693	-	0	0	0	0	-
2. 10 & 15 percent sales tax	40,959,126	26,623,431	\$14,335,695	51,481,402	33,462,911	\$18,018,491	\$ 10,522,276	\$ 6,839,480	\$ 3,682,796	65	35
3. General Retail Sales Tax	2,492,833	2,143,836	348,997	3,410,901	2,933,374	477,527	918,068	789,538	128,530	86	14
4. Net Profit Merchandising Div. Before Other Income	51,692,538	25,846,269	25,846,269	-	-	-	(51,692,538)	(25,846,269)	(25,846,269)	50	50
5. Other Merchandising Div. Income	413,154	206,577	206,577	193,909	96,954	96,954	(219,245)	(109,623)	(109,622)	50	50
6. Increase in Working Capital	(1,530,443)	(765,221)	(765,221)	-	-	-	1,530,443	765,221	765,222	50	50
7. Interest Income	1,674,037	835,518	835,518	-	-	-	(1,674,037)	(835,518)	(835,518)	50	50
8. Beer Tax	-	-	-	85,895	42,947	42,947	85,895	42,947	42,948	50	50
9. License Fees	-	-	-	2,396,676	1,198,338	1,198,338	2,396,676	1,198,338	1,198,338	50	50
10. B&O Taxes	-	-	-	3,948,579	3,237,361	731,218	3,948,579	3,237,361	731,218	See Tables*	
11. Real and Personal Property Taxes	-	-	-	84,580	27,911	56,669	84,580	27,911	56,669	33	67
12. Increased Enforcement Costs	-	-	-	(1,254,422)	(877,211)	(877,211)	(1,254,422)	(877,211)	(877,211)	50	50
13. Total Revenue	\$160,441,938	\$119,634,103	\$40,807,834	\$124,591,213	\$104,846,279	\$19,744,935	\$ 35,850,725	\$ 14,787,825	\$ 21,062,899	-	-
14. Increase or Decrease - \$							(22,348)	(12,364)	(12,364)		
15. Increase Necessary to make-up difference - \$ (\$1.72 liter tax, 10 and 15% tax, B&O tax)							29,838	14,588	112,348		

\*Refer to Appendix D, TABLE 1

TABLE 9  
Washington State Liquor Control System  
Summary of Present Liquor Control System - Revenue Estimates vs.  
Free Enterprise System - Revenue Estimates: Difference by Revenue Source  
Fiscal Year 1987

	Present Control System		Free Enterprise System		Diff.		Increase or Decrease		Distribution	
	Actual Total	State	Distribution Local	Estimate Total	State	Distribution Local	Total	State	Distribution Local	Formula
1. \$1.72 liter tax	\$ 66,213,471	\$ 66,213,471	-	\$ 66,213,471	\$ 66,213,471	-	0	0	0	100
2. 10 & 15 percent sales tax	43,833,242	28,491,607	\$15,341,634	54,618,694	35,502,151	\$19,116,543	\$ 10,785,452	\$ 7,010,544	\$ 3,774,908	65
3. General Retail Sales Tax	2,807,546	2,414,489	393,057	3,835,214	3,298,284	536,930	1,027,668	883,795	143,873	86
4. Net Profit Merchandising Div. before other income	53,942,402	26,971,201	26,971,201	-	-	-	(53,942,402)	(26,971,201)	(26,971,201)	50
5. Other Merchandising Div. Income	445,090	222,545	222,545	208,769	104,384	104,385	(236,321)	(118,161)	(118,160)	50
6. Increase in Working Capital	(1,618,050)	(809,025)	(809,025)	-	-	-	1,618,050	809,025	809,025	50
7. Interest Income	1,800,202	900,101	900,101	-	-	-	(1,800,202)	(900,101)	(900,101)	50
8. Beer Tax	-	-	-	95,721	47,860	47,861	95,721	47,860	47,861	50
9. License Fees	-	-	-	2,633,947	1,316,973	1,316,974	2,633,947	1,316,973	1,316,974	50
10. 850 Taxes	-	-	-	4,243,415	3,457,598	785,817	4,243,415	3,457,598	785,817	See Tables*
11. Real and Personal Property Taxes	-	-	-	90,342	29,813	60,529	90,342	29,813	60,529	33
12. Increased Enforcement Costs	-	-	-	(1,929,864)	(964,932)	(964,932)	(1,929,864)	(964,932)	(964,932)	50
13. Total Revenue	\$167,423,902	\$124,404,389	\$43,019,513	\$130,009,709	\$109,005,602	\$21,004,107	(\$ 37,414,194)	(\$ 15,398,787)	(\$22,015,407)	-
14. Increase or Decrease - \$							(22,354)	(12,372)	(51,182)	-
15. Increase Necessary to make-up difference - \$ (\$1.72 liter tax, 10 and 15% tax, 850 tax)							29,912	14,642	110,622	-

\*Refer to Appendix D, TABLE I

TABLE 10

Washington State Liquor Control System  
 Summary of Present Liquor Control System - Revenue Estimates vs.  
 Free Enterprise System - Revenue Estimates: Difference by Revenue Source  
 Fiscal Year 1988

	Present Control System			Free Enterprise System			Increase or Decrease		Distribution	
	Actual Total	State	Distribution Local	Estimate Total	State	Distribution Local	Diff. Total	State	Distribution Local	Formula State Local
1. \$1.72 liter tax	\$ 67,630,275	\$ 67,630,275	-	\$ 67,630,275	\$ 67,630,275	-	0	0	0	100
2. 10 & 15 percent sales tax	46,850,791	30,453,014	\$16,397,777	57,682,760	37,493,794	\$ 20,188,966	\$ 10,831,969	\$ 7,040,780	\$ 3,791,189	65
3. General Retail Sales Tax	3,146,938	2,706,366	440,572	4,291,634	3,690,805	600,829	1,144,696	984,439	160,257	86
4. Net Profit Merchandising Div. before other income	56,734,041	28,367,020	28,367,021	-	-	-	(56,734,041)	(28,367,020)	(28,367,020)	50
5. Other Merchandising Div. Income	478,808	239,404	239,404	224,659	112,320	112,330	(254,149)	(127,075)	(127,074)	50
6. Increase in Working Capital	(1,708,374)	(854,187)	(854,187)	-	-	-	1,708,374	854,187	854,187	50
7. Interest Income	1,936,578	968,289	968,289	-	-	-	(1,936,578)	(968,289)	(968,289)	50
8. Beer Tax	-	-	-	106,059	53,029	53,030	106,059	53,029	53,030	50
9. License Fees	-	-	-	2,921,574	1,460,787	1,460,787	2,921,574	1,460,787	1,460,787	50
10. 80 Taxes	-	-	-	4,513,249	3,677,463	835,786	4,513,249	3,677,463	835,786	See Tables*
11. Real and Personal Property Taxes	-	-	-	94,907	31,319	63,588	94,907	31,319	63,588	33
12. Increased Enforcement Costs	-	-	-	(2,122,851)	(1,061,426)	(1,061,425)	(2,122,851)	(1,061,426)	(1,061,425)	50
13. Total Revenue	\$175,069,057	\$129,510,181	\$45,558,876	\$135,342,266	\$113,088,366	\$ 22,253,900	(\$ 39,726,791)	(\$ 16,421,806)	(\$ 23,304,984)	-
14. Increase or Decrease - 2							(22,692)	(12,682)	(51,152)	-
15. Increase Necessary to make-up difference - 2 (\$1.72 liter tax, 10 and 15% tax, 80 tax)							30,592	15,092	110,842	-

\*Refer to Appendix D, TABLE 1

TABLE 11

Washington State Liquor Control System  
 Summary of Present Liquor Control System - Revenue Estimates vs.  
 Free Enterprise System - Revenue Estimates: Difference by Revenue Source  
 Fiscal Year 1989

	Present Control System			Free Enterprise System			Increase or Decrease			Distribution	
	Actual Total	State	Local	Estimate Total	State	Local	Diff. Total	State	Local	Formula	Local
1. \$1.72 liter tax	\$ 69,020,636	\$ 69,020,636	-	\$ 69,020,636	\$ 69,020,636	-	0	0	0	100	-
2. 10 & 15 percent sales tax	50,038,225	32,524,846	\$17,513,379	61,017,491	39,661,169	\$21,356,322	\$ 10,979,266	\$ 7,136,323	\$ 3,842,943	65	35
3. General Retail Sales Tax	3,520,089	3,027,276	492,813	4,796,513	4,125,001	671,512	1,276,424	1,097,725	178,699	86	14
4. Net Profit Merchandising Div. before other income	59,703,670	29,851,835	29,851,835	-	-	-	(59,703,670)	(29,851,835)	(29,851,835)	50	50
5. Other Merchandising Div. Income	514,733	257,366	257,367	241,553	126,776	120,777	(273,180)	(136,590)	(136,590)	50	50
6. Increase in Working Capital	(1,820,187)	(910,093)	(910,094)	-	-	-	1,820,187	910,093	910,094	50	50
7. Interest Income	2,081,879	1,040,939	1,040,940	-	-	-	(2,081,879)	(1,040,939)	(1,040,940)	50	50
8. Beer Tax	-	-	-	117,078	58,539	58,539	117,078	58,539	58,539	50	50
9. License Fees	-	-	-	3,193,280	1,596,640	1,596,640	3,193,280	1,596,640	1,596,640	50	50
10. 860 Taxes	-	-	-	4,817,311	3,925,217	892,094	4,817,311	3,925,217	892,094	See Tables*	67
11. Real and Personal Property Taxes	-	-	-	99,759	32,920	66,839	99,759	32,920	66,839	33	67
12. Increased Enforcement Costs	-	-	-	(2,335,136)	(1,167,568)	(1,167,568)	(2,335,136)	(1,167,568)	(1,167,568)	50	50
13. Total Revenue	\$183,059,045	\$134,812,805	\$48,246,240	\$140,968,485	\$117,373,330	\$23,595,155	\$ 42,090,560	\$ 17,439,475	\$24,651,084	-	-
14. Increase or Decrease - %							(22.99%)	(12.93%)	(51.09%)		
15. Increase Necessary to make-up difference - $\frac{1}{2}$ (\$1.72 liter tax, 10 and 15% tax, 860 tax)							31.21%	15.40%	110.75%		

\*Refer to Appendix D, TABLE 1



## APPENDIX F

### Source Documents

#### Books

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- Alcohol and Public Policy: Beyond the Shadow of Prohibition, Mark H. Moore and Dean R. Gerstein; National Academy Press, 1981.

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- Summary of State Laws and Regulations Relating to Distilled Spirits, 23rd Edition 1981; Distilled Spirits Council of the United States, Inc.
- Report to the President and the Congress on Health Hazards Associated with Alcohol and Methods to Inform the General Public of these Hazards, U.S. Departments of Treasury and Health and Human Services, November 1980.
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- House Commerce Subcommittee Study of Washington State Liquor Laws 1977 by Bob O'Brien, Research Analyst.
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- State-wide Summary and Problem Analysis of Traffic Collisions, State of Washington 1980, Washington Traffic Safety Commission.
- Findings and Recommendations of the Interagency Advisory Committee on Alcohol/Traffic Safety, Washington Traffic Safety Commission and the Bureau of Alcohol and Substance Abuse Department of Social and Health Services, February 1981.
- Highway Safety Plan FY 1982 - Washington Traffic Safety Commission, June 1981.

## APPENDIX G

### Major Concerns of the Beer and Wine Industry

During the conduct of this study, it became apparent that many members of the beer and wine industry consider state liquor laws and regulations as deterrents to normal business development.

During the 1982 session of the state legislature, several important changes to the state liquor laws were adopted. In addition, the State Liquor Control Board has been reviewing liquor regulations and merchandising policy. However, there are still several major unresolved issues that deserve further consideration.

The following is a list of the major issues concerning the beer and wine industry developed from recent contacts with industry members.

### Taxation

- High Level of Wine Taxation - The state wine tax is considered by the industry to be artificially high. The tax therefore may tend to limit winery competition with malt beverages. State winery representatives would like to have the wine tax reduced in order to reduce the cost of wine for state consumers.
- Distribution of Wine Research Tax Funds - During the 1981 legislative session, the state wine tax was increased to fund wine research at Washington State University. The grape growers now complain that the tax revenues allocated to grape growing research are not adequate. It has been suggested that additional revenue is needed or more of the existing revenue should be reallocated to grape growing research.
- State Inventory Tax on Red Wine - Unlike white wines, red wines must remain in storage for several years. Consequently, wineries would like to exempt red wines from the inventory tax in order to enhance and encourage the making of red wines.
- Wine Liter Tax - During the 1981 legislative session, the state wine tax was converted from a gallonage tax to a liter tax. This action was taken in anticipation of changes to federal liquor regulations. However, the federal government has been slow to implement its regulations. Consequently, wineries and wholesalers must submit production and tax records in both gallons and liters.

The wine industry would like the state to temporarily revert to the gallonage tax until the federal government can make the metric conversion.

## Regulation

- Unfair Competition - One of the most intense issues concerns the belief among wine retailers that the State Liquor Control Board competes unfairly in the wine merchandising market.

State liquor statutes prohibit private beer and wine retailers from purchasing directly from manufacturers. The private retailers must also pay cash for each purchase.

The Board can purchase alcoholic beverages directly from manufacturers and importers, and, if it chooses, buy the merchandise on the terms offered by its suppliers. In addition, the private retailers must operate within rules established by the Board that do not apply to the Board's merchandising operations (the regulator regulates itself).

Wine retailers argue that the Board's competitive advantage in these areas tends to inhibit or even stifle competition.

- Price Posting - Every beer and wine wholesaler must file a price posting showing its delivered wholesale prices of beer and wine with the State Liquor Control Board. Changes to price lists must be received before the fifteenth day of each month for approval and use on the first calendar day of the next month.

No price can be below cost or a "loss leader" as those terms are redefined in Chapter 19.90 RCW-Unfair Practices Act. The Board may reject a price posting which it deems to be in violation of a regulation which would tend to disrupt the orderly sale and distribution of wine or beer.

Under normal conditions, prices filed on the 15th would show up at the consumer level in about three to four weeks in the case of large food chains. If a wholesaler misses the filing date, he must wait one month to file and another three or four weeks until the price change reaches the consumer or a total of seven to eight weeks. On the other hand, the Board does not have to purchase from a wholesaler or wait for price posting approval. Board price changes can be passed on to the consumer almost immediately.

It should be noted that the Board recently amended price posting rules to allow some discretion regarding the filing date. Firms can now file amendments to their price lists after the 15th of each month under some conditions.

It is argued that this system of price control is awkward at best, and often makes it impossible for private retailers to effectively adjust prices in response to market demand or Board pricing adjustments.

Many members of the industry question the need for the Board's pricing rules and the propriety of state intervention into free market pricing mechanisms.

- Chemical Analysis and Labeling Certification - No wine can be imported or sold within Washington until a domestic winery or a United States importer has obtained certification of the label from the State Liquor Control Board.

A request for label certification must be submitted to the Board with a sample label, two samples of the wine, the analysis fee, and a copy of the federal certificate of label approval.

Many members of the industry believe that this label approval procedure is costly, time consuming, and redundant. Federal government approval should be satisfactory for state level truth in labeling protection.

The Board is reviewing the state statutes concerning this issue with the purpose of finding an alternative to the present requirements for chemical analysis and label certification.

The Board also has the authority to request wine samples for analysis at any time in order to ensure quality control and conformance to originally approved labeling.

- Cooperative Warehousing - At the present time, state liquor control laws prohibit wineries from sharing warehouse facilities.

Several of the wineries in the Yakima Valley would like to cut costs by entering into warehouse cooperative agreements similar to those organized for the storage of other agriculture produce.

- Encouragement of Wine Promotion - State wineries would like to see stronger state government encouragement and promotion of the state's wine industry.

It has been argued that state laws should be further liberalized to allow promotion of Washington wines by public officials and their display at public facilities. Several ideas along these lines have been proposed, such as:

- Allow the Governor and other public officials to provide samples of Washington wines to official state guests and other visitors from other states and countries. State officials could also be allowed to take samples with them on visits to other states and countries as gifts.
- Allow the sponsors of national and international conferences conducted at various state educational institutions to provide guests with wine samples and the opportunity to purchase Washington wines at discount.
- Allow state wineries to provide wine samples and wine discount opportunities to tourists and other state guests at airports and convention centers, etc.
- Allow wine sampling at county and state fairs.

In addition, state agency efforts to promote Washington wine development should be better coordinated to provide a maximum effort.

- **Shipping Restrictions** - Governmental restrictions on the transport of liquor make it prohibitive for small wineries to ship small quantities of wine to potential customers in other states.

Federal laws prohibit the shipment of liquor by the United States Post Office. In addition, private parcel delivery companies will not handle liquor of any kind.

These restrictions make it impossible for small wineries to ship single bottles of wine to individuals in other states upon request. Winery representatives argue that shipping regulations should be liberalized to accommodate the wineries.

- **Lack of Uniformity** - Each state and the federal government tax and regulate liquor differently. Consequently, the paperwork and other expenses involved make it prohibitive for small wineries to do business in other states.

Industry representatives point out that attempts should be made to streamline interstate liquor regulations in order to obtain regulation compatibility between the states and the federal government and to obtain uniformity of regulation among the states.

Proposed Final

June 24, 1983

APPENDIX H

Legislative Budget Committee

SPECIAL REPORT

State Level Fiscal Impact  
of Prohibiting Sale of  
Strong Beer and Wine in  
State Liquor Stores

Legislative Budget Committee  
506 East 16th Avenue  
Olympia, Washington 98504

SENATORS

Sen. George N. Clarke, Vice Chairman  
Sen. George Fleming  
Sen. Jeannette Hayner  
Sen. James A. McDermott  
Sen. A. L. Rasmussen  
Sen. Hal Zimmerman



State of  
Washington  
Legislative  
Budget Committee

506 East 16th  
OLYMPIA  
98504

Donald F. Petersen  
Legislative Auditor

REPRESENTATIVES

Rep. Wayne Ehlers  
Rep. Gary A. Nelson  
Rep. Helen Sommers, Secretary  
Rep. Bob Williams, Ass't Secretary  
Rep. Dan Grimm

FOREWORD

This review of the Washington State Liquor Control Board wine and strong beer sales and expenses was conducted under legislative authority set forth by Chapter 44.28 RCW.

The purpose of the review is to provide members of the Washington State Legislature with the fiscal impact to Washington State and local government if the State Liquor Control Board was prohibited from selling strong beer and wine in State liquor stores.

The review was done during late November and December, 1982 by Richard Mueller, on the staff of the Legislative Budget Committee.

DONALD F. PETERSEN  
Legislative Auditor

TABLE OF CONTENTS

<u>SECTION</u>		<u>PAGE</u>
I	<u>SUMMARY</u>	1
II	<u>FINDINGS/CONCLUSIONS</u>	3
	A. <u>BACKGROUND</u>	3
	B. <u>FINDINGS</u>	3
	1. Auditor Cost Allocation	4
	2. Liquor Control Board Cost Allocation	5
	3. "Private Sector" Cost Allocations	6
	4. Cost Reduction	7
	5. Additional Tax Revenues	9
	6. Better Use of Retail Space	9
	7. Wine Pricing	10
	C. <u>CONCLUSIONS</u>	11
	D. <u>RECOMMENDATION</u>	11
<u>APPENDIX I</u>		
	Exhibit 1: Cost Allocation Work Sheet	12



## SECTION I

### SUMMARY

#### Problem

There is a continuing controversy between the State Liquor Control Board (SLCB) and the private sector on whether the Board is making a profit or loss on the sale of wine and strong beer, and what the total fiscal impact on State and local government would be if the Board discontinued selling wine and strong beer.

There is also concern that the retail price of wine would increase if the State was no longer allowed to sell wine.

#### Findings

Based on Fiscal Year 1982 sales volume, the economic effect on State and local governments would be a revenue loss of some \$8 million per year.

Table 1 shows a total net income of \$62.4 million from the Board's current operations. The table also shows a net income of \$53.4 million if sales of strong beer and wine are discontinued. The difference is \$9 million revenue loss. On the other hand, additional tax revenues may be expected if the private sector picks up the Board's 18% share of the wine market. These additional revenues have been estimated to be \$0.8 million. Therefore, the \$9 million revenue loss will be partially offset by \$0.8 million revenue gain, reducing the potential revenue loss to approximately \$8 million per year. The State General Fund share of the revenue loss would be about \$3.8 million; local government share would be about \$4.2 million.

Table 1

Product Margin Analysis Statement - FY 1982

	Current Operations					If strong beer and wine sales are discontinued
	Strong Beer	Wine	Spirits	Other	Total	
Sales (Net)*	\$2,900,483	\$27,811,916	\$208,667,272	\$27,901,730	\$267,281,401	
Cost of goods sold	1,669,061	17,365,055	149,184,541	170,240	168,388,897	\$236,569,002
Gross margin on sales	1,231,422	10,446,861	59,482,731	27,731,490	98,892,504	149,354,781
Direct cost allocation	956,200	5,498,838	23,615,901	3,151,998	33,222,937	87,214,221
Sales margin	275,222	4,948,023	35,866,830	24,579,492	65,669,567	30,541,967
Overhead cost allocation	84,841	456,386	2,384,327	325,061	3,250,615	56,672,254
Net income	190,381	4,491,637	33,482,503	24,254,431	62,418,952	3,250,615
						53,421,639

\* Sales adjusted to mark up rates effective July 1, 1982

The State Board is presently selling wine at approximately 20% less per fifth than the private sector. However, if the State was required to purchase wine through a wholesaler (as the private sector is), then the Board's prices would be 7% higher than the private sector prices (if current mark ups were continued).

#### Conclusion

The product margin income statement (Table 1) is a useful tool if discontinuance of a particular product is being considered. The analysis shows that the amount of costs allocated to wine and strong beer is academic. The bottom line is what amount of costs can be eliminated.

If a specific product yields a sales margin, it generally should be retained even though allocation of certain expenses to the product would indicate a net loss for such product. In this case each product adds to net income (strong beer - \$190,381 and wine - \$4,491,637).

This conclusion is based upon the finding that the product in question represents a relatively small segment of the enterprise. (Beer and wine represent 13% of net board sales.) Termination of the State's strong beer and wine sales would not cause enough reduction in expenses to offset the estimated \$8 million net income loss each year.

The shelf space used by wine and strong beer may be excessive when evaluated by the amount of net income earned by the products relative to all other products (expressed in a percentage), to percent space used on the shelves. However, the fairness of this measure is questioned when considering the bigger picture, and the fact that the wine and beer shelf space is returning a net income. For example: would the display of additional brands or more of the same brands of spirits really offset the \$8 million net income loss? The State Liquor Control Board is limited in the products it can sell. It is not a privately owned retailer who may expand and diversify their "product line" and sell just about anything in their store. Further, the Board is not in the marketing business nor should it be according to our understanding of the legislative intent governing State liquor merchandising.

#### Summary

About \$21.7 million of the \$26 million in cost associated with beer and wine sales can be eliminated; however, an \$8 million net income loss/year would remain. Even if all costs associated with beer and wine sales were reduced to zero, there would still be a net income loss of \$4.7 million per year.

#### Recommendation

The Washington State Liquor Control Board authority for sale of strong beer (malt beverages) and wine should be continued.

## SECTION II

### FINDINGS/CONCLUSIONS

#### A. BACKGROUND

There is a continuing controversy between the State Liquor Control Board (SLCB) and the private sector on whether the Board is making a profit, or loss, on the sale of wine.

During the 1982 Legislative Session House Bill No. 1039, to repeal the authority of the SLCB to sell wine and strong beer, was introduced. It did not pass. It did raise the issue of what would be the fiscal impact of prohibiting the sale of strong beer and wine through State liquor stores. In the form the bill passed the House, it mandated a fiscal impact study by the Legislative Budget Committee (LBC) of the proposal. This bill also had a \$20,000 appropriation to the LBC to retain a consultant to conduct the study.

Although the bill did not pass on third reading in the Senate, there was considerable floor comment during the debate on final passage, that the LBC could do the study during the 1982 interim. During the July 1982 LBC meeting, such a request to study the fiscal impact of prohibiting the sale of strong beer and wine in State liquor stores was approved by the LBC.

#### B. FINDINGS

Table 1 shows that the Board's net income would be reduced \$9 million; from \$62 million current operating income, to \$53 million if strong beer and wine sales were discontinued by State liquor stores.

Table 1  
Product Margin Analysis Statement - FY 1982

	Current Operations					If strong beer and wine sales are discontinued
	Strong Beer	Wine	Spirits	Other	Total	
Sales (Net)*	\$2,900,483	\$27,811,916	\$208,667,272	\$27,901,730	\$267,281,401	\$236,569,002
Cost of goods sold	1,669,061	17,365,055	149,184,541	170,240	168,388,897	149,354,781
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Direct cost allocation	956,200	5,498,838	23,615,901	3,151,998	33,222,937	30,541,967
Sales margin	275,222	4,948,023	35,866,830	24,579,492	65,669,567	56,672,254
Overhead cost allocation	84,841	456,386	2,384,327	325,061	3,250,615	3,250,615
Net income	190,381	4,491,637	33,482,503	24,254,431	62,418,952	53,421,639
% Return on Net Sales	7%	18%	16%			

\* Net sales adjusted for the July 1, 1982 increases in wine and strong beer mark up rates of 60% and 70% respectively.

NOTE: If the actual FY 1982 net sales were used - strong beer would show a net income loss of \$211,865, and wine a net income of \$2,043,164 rather than \$4,491,637. The net income of spirits would remain the same. The total net income for current operations would be reduced to \$59,568,235; resulting in a \$6.1 million net income loss if the Board no longer sold strong beer and wine. Under these lower markup rates the percent return on strong beer would be 8% rather than 7%, wine would be 8% rather than 18%. Spirits would remain at 16% return on net sales.

1. Auditor Cost Allocation Discussion (Table 1)

Prior to preparation of the profit and loss statement in the margin analysis format it was necessary to distinguish between product related direct operating expenses and those expenses that are nonproduct related, i.e., overhead.

Under generally accepted accounting practices, if a cost is identifiable and benefits a certain program, it is charged to that program. In the SLCB's case the Merchandising Division (the operating division that buys and sells spirits, strong beer and wine) expenditures of \$30,070,939 were identifiable and already being charged to that program. Therefore, for purposes of this review, these expenses were considered direct costs.

If the expenses cannot be identified with or do not clearly benefit a particular program, they are charged as overhead. In this case, the General Administration Division expenditures of \$3,250,615 could not be clearly identifiable with or benefit any particular program. Therefore, they were considered overhead.

Step 1:

Step 1 was to allocate the overhead costs to the Merchandising Division using a basis which would equitably distribute these expenses to the division in relation to the benefits received.

Obviously the basis for distributing these costs may vary from organization to organization, but in all cases the basis that should be chosen is one that will allocate an equitable share of overhead expenses to each division or product. Example of cost allocation bases are - direct costs, costs of goods sold, machine hours, direct labor hours, direct labor dollars and units sold. Probably the most accurate, and the one predominantly used is direct labor dollars. This may be due to the fact that direct labor dollars is a measure of people and people require administrative services. The "direct labor dollar" basis was used to distribute the general administrative expenses to the Merchandising Division and Licensing Division. (See Appendix I, Exhibit 1)

Step 2:

Step 2 was to allocate all the Merchandising Division costs to the product lines within the Division - wine, strong beer and spirits. Again an equitable base had to be determined which would distribute the expenses in relation to the benefits received. Two bases were selected: (1) The units sold base was used to distribute labor, goods and services, travel, overhead, other. This base is probably the most direct method of applying expenses to products. Next a units sold "measure" was selected. Cases

sold, liters sold, and bottles were considered. Bottles sold was selected because it is the way the customer normally receives the product from the store clerk. Also the clerks generally spend the majority of their time handling bottles. In addition, the stores are staffed using bottles sold as a base. See Appendix I, Exhibit 1 Step 2a.

Another base was selected to distribute utilities, rental, and lease, maintenance and depreciation expenses. The "space used" base was chosen because these kinds of expenses are normally related to square footage or area. Case inventory figures in the warehouse and stores was the technique used for measuring space used. See Appendix I, Exhibit 1 Step 2b.

Total Dollars Allocated:

A total of \$32,996,493 was allocated to products sold - \$30,070,939 of direct costs and \$2,925,554 of overhead.

2. Liquor Control Board Cost Allocation

The Board generally used the same allocation techniques as the auditor, with a couple of exceptions.

Exception 1:

When the Board distributed general administration overhead dollars to the Merchandising Division, the basis used was an estimate of how the people in the General Administration Division spent their time. The controller determined this a number of years ago by talking with Board members, and various people in the Division, plus his practical experience. This process resulted in an allocation of \$2,585,824 of general administration overhead costs to the Merchandising Division. The auditor used "direct labor dollar" base which resulted in an allocation of \$2,925,554 in overhead.

Exception 2:

The Board went into more detail than the auditor when distributing costs to the various products. For example: they used case inventories in the warehouse, stores and agencies as a basis for allocating utility, rent and depreciation expenses of each to the products. The Board also used as a basis the following - agency dollar sales, total case sales, stores unit sold, agency units sold, stores and agency units sold, for allocating specific expenditures of each to the products. This more detailed process resulted in a two dollar difference in direct cost allocations.



Total Dollars Allocated:

	<u>Auditor</u>	<u>Board</u>
Direct cost allocation	\$30,070,939	\$30,070,941
Overhead allocation	<u>2,925,554</u>	<u>2,585,824</u>
TOTAL	\$32,996,493	\$32,656,765

3. "Private Sector" Cost Allocations

Public testimony at a February 9, 1982 legislative hearing on House Bill No. 1039 indicated that the State "loses money in the merchandising of strong beer and wine."

To back up this statement the individual used what is considered a "blanket method" of allocating costs. This is a method where all expenses are lumped together and distributed to the products on some ratio of product activity to the total company activity. The basis most commonly used are total expenses, sales, investments, cost of sales, payroll.

The individual selected a number of bases for distributing all costs to strong beer and wine; none of which are ones commonly used.

The "blanket method" is relatively simple to administer and is easily understood. However, the expense allocations usually bear little relationship to the actual services performed by the Division or to costs by product. To distribute all costs solely on any of the five basis chosen by this individual is not reasonable and certainly not "good proper business practice". The basis for cost allocation should reflect a factual relationship of expenses to the various activities which generate the Liquor Board's income.

The base figures used were also inaccurate; however, if the "blanket method" technique is used with the correct dollars, the following are the results. For comparison, the Board and auditors cost allocations are also given in Table 2. Also note that what ever technique used to distribute costs, the result is the same - a net income loss of \$9 million.

Table 2

Overview of Cost Allocations\* to Wine and Strong Beer

	<u>Expenses To Be Allocated</u>	<u>Wine &amp; Beer Allocated Expenses</u>	<u>Wine &amp; Beer Gross Margin</u>	<u>Net Income (Loss)</u>	<u>Effect on Board Total Net Income If Wine &amp; Strong Beer Sales Are Discontinued</u>
<u>Private Sector Allocation Results</u>					
Basis for Allocations					
A single base used for all cost allocations					
1) 25.9% cases handled	\$32,996,493	\$8,546,092	\$11,678,283	\$3,132,191	\$ (9 million)
2) 25.72% gallons usage		8,486,698	11,678,283	3,191,585	(9 million)
3) 28.19% wholesale space		9,301,711	11,678,283	2,376,572	(9 million)
4) 33.22% retail space		10,961,434	11,678,283	716,849	(9 million)
5) 49.1% product postings		16,201,278	11,678,283	(4,522,995)	(9 million)
<u>Board Allocation Results</u>					
Basis for Allocations					
A different base selected for appropriate cost element					
	32,656,765	6,782,807	11,678,283	4,895,476	(9 million)
- case inventory					
- agency dollar sales					
- units sold					
<u>LBC Auditor Allocation Results</u>					
Basis for Allocations					
A different base selected for appropriate cost program					
	32,996,493	6,996,265	11,678,283	4,682,018	(9 million)
- case inventory					
- dollar labor cost					
- units sold					

\* Note the \$9 million net income loss no matter what cost allocation technique is used.

4. Cost Reduction

Just because certain expenditures are allocated to a particular product does not necessarily mean that those expenses will all go away if the product is eliminated.

The key is - can the Board cut their expenditures enough to offset the estimated \$9 million net income loss. Some 83% of all costs associated with beer and wine sales can be eliminated; but even with this reduction there still will be a \$9 million net income loss. Table 1 and the following data show this.

Total Costs Associated With  
Beer and Wine Sales

	<u>Can Be Eliminated</u>	<u>Can Not Be Eliminated</u>	
<u>Costs of Goods Sold</u>	\$19,034,116	\$ -0-	
Beer \$ 1,669,061			
Wine <u>17,365,055</u>			
\$19,034,116			
<u>Direct Cost Allocations</u>	2,680,970	3,774,068	
Beer \$ 956,200			
Wine <u>5,498,838</u>			
\$ 6,455,038			
<u>Overhead Cost Allocations</u>	-0-	541,227	
Beer \$ 84,841			
Wine <u>456,386</u>			
\$ 541,227			
<u>TOTALS</u>	<u>\$21,715,086</u>	<u>\$ 4,315,295</u>	<u>\$26,030,381</u>
	83%	17%	

The Board has estimated that \$2.7 million in direct costs can be eliminated if the State no longer sells strong beer and wine. An itemization of this figure follows:

<u>Liquor Control Board Merchandising Division</u>	<u>Wine</u>	<u>Beer</u>	
<u>Salaries &amp; Benefits:</u>			
Agencies	\$ 96,009	\$ 18,937	
Stores	1,684,915	288,104	
Warehouse	270,119	85,222	
Total			\$ 2,443,306
<u>Other Costs:</u>			
Agencies	8,021	2,899	
Stores	121,976	20,729	
Warehouse	67,320	16,719	
Total			<u>237,664</u>
GRAND TOTAL	\$ 2,248,360	+ \$ 432,610	= \$ 2,680,970



This \$2.7 million reduction represents a 7.5% reduction in total Board operating expenses or a 8.9% reduction in labor costs.

In order for the net income to remain the same (\$62,418,952) another \$8,997,213 in expenses would have to be eliminated. For example, the entire General Administration Division would have to be eliminated (\$3,250,615) plus \$5,746,698 in the Merchandising Division (NOTE: the total remaining costs associated with strong beer and wine, which allegedly cannot be cut are only \$4.3 million). The total estimated effect (\$8,997,313 + \$2,680,970 = \$11,678,283) would equal a 32% reduction in Board operating expenses. This 32% reduction would have to be realized if the Legislature wished to maintain the present level of Board net income with the more limited product line.

5. Additional Tax Revenues

The Board has estimated that certain tax revenues may increase if the Board were no longer to sell beer and wine. It was assumed that (1) the private sector would pick up this business; (2) that their prices would remain higher than the States; (3) that their inventories would increase.

The following are the Board's\* estimate of additional tax revenues:

Business and Occupation Tax	\$321,872
Inventory Tax	61,293
Sales Tax	<u>452,835</u>
	\$836,000

6. Better Use of Retail Space

Wine and strong beer displays use an estimated 1/3 of the retail shelf space in State liquor stores. Beer is usually displayed on the floor, so for purposes of this discussion wine is considered the primary user of shelf space. If the Board no longer sold these products, this shelf space could be used for something else. For example: (1) it could be used to display additional brands of spirits not now available in State stores; (2) it could be used to better display the present brands of spirits; and (3) it may be considered surplus space and when the present store leases expire, a smaller store at a lesser rent may be found.

The private sector believes that a better use of this space (other than displays of strong beer and wine) should, and can be found. Their measure of effective "use of space" is a ratio of percent net income the product generates, to percent space used. In the State's case the wine and strong beer products generate 12% of the net income and use 33% of the shelf space, therefore, better use of this shelf space should be found.

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\* Department of Revenue staff have audited these figures.

An objective estimate/proposal of how this available space may realistically generate enough revenue to offset the beer and wine net income loss is not available.

## 7. Wine Pricing

Table 3 shows the differences in wine pricing - private vs. State. Presently the State price is approximately 20% lower per fifth than the private sector's price. However, the State is not required to purchase wine from a wholesaler; the private sector is. If the wholesaler mark up is added to the State's pricing schedule it would result in a price 7% higher than the private sector's price.

Table 3

### Wine Pricing Private Versus State

(Per 750 Milliliter - Approx. One Fifth)

	Private Sector Three Tier System	State Board	
		Present Two* Tier System	If Use Private Sector Three Tier System
<u>Supplier</u>			
Cost from supplier	\$1.75	\$1.75	\$1.75
Liter (gallonage tax)	+ .163	**	**
<u>Wholesaler</u>			
Total cost from supplier	1.913		1.75
Mark up on cost	x 35%		x 35%
<u>Retail</u>			
Total cost from supplier/ wholesaler	2.583	1.75	2.3625
Mark up on cost	x 42.85%	x 60%	x 60%
Liter (gallonage) tax	+ .163	+ .163	+ .163
Sales Tax	x 6.2%	6.2%	6.2%
Consumer Cost Per Fifth	\$3.92	\$3.15	\$4.19
State Price Versus Private Price		20% lower	7% higher

\* Current statutes permit the Washington State Liquor Control Board to act as a wholesaler and retailer of wine, while requiring a total separation of the wholesaler and retailer in the private sector. (RCW 68.28.010)

\*\* State adds tax after mark up.

C. CONCLUSIONS

The product margin income statement is a useful tool if discontinuance of a particular product is being considered. The analysis shows that the amount of costs allocated to wine and strong beer is academic - that the key is - what amount costs can be eliminated.

If a specific product yields a sales margin, it generally should be retained even though allocation of certain expenses to the product would indicate a net loss for such product. In this case each product adds to the net income (strong beer - \$190,381 and wine - \$4,491,637). This observation is based upon the assumption that the product in question represents a relatively small segment of the enterprise. (Beer and wine represent 13% of net sales and 12% of net income.) Its termination, therefore would not cause enough reduction in expenses to offset the estimated \$8 million net income loss each year. A 32% reduction in Board expenditures would be necessary to maintain the State present net income level. The Board has estimated that a 7.4% reduction can be achieved.

The shelf space used by wine and beer may be excessive when evaluated by a ratio of percent net income earned to percent space used. However, the fairness of this measure is questioned when considering the bigger picture and the fact that the wine and beer shelf space is returning a net income. For example: can displays of additional, or more of the same brands of spirits really offset the \$8 million net income loss? An objective answer to this question is not available. The State Liquor Board is limited in the products it can sell. The private sector may sell just about anything in their stores. Further, the Board is not in the marketing business, nor should it be according to our understanding of the legislative intent of the State liquor statutes.

D. RECOMMENDATION

The Washington State Liquor Control Board authority for sale of strong beer (malt beverages) and wine should be continued.

# APPENDIX I

## Exhibit 1

### Cost Allocation Work Sheet

	<u>Total Costs</u>
Merchandising (Operating) Division	\$30,070,939
Licensing Division (Operating)	3,151,998
General Administration (Overhead) Division	<u>3,250,615</u>
	\$36,473,552

#### Step 1 - Distribute General Administration Costs

Allocated overhead to "M" Division on a basis of labor costs in "M" Division, compared to labor costs in "L" Division. Therefore 90% of General Administration costs are allocated to "M" Division and 10% to "L" Division.

	<u>"M"</u> <u>Division</u>	<u>"L"</u> <u>Division</u>
G.A. (Overhead)		
Division Allocation	\$2,925,554	\$325,061

#### Step 2 - Distribute "M" Division Costs

	<u>Total Costs</u>	<u>Strong Beer</u>	<u>Wine</u>	<u>Spirits</u>
(a) Allocate certain "M" Div. Costs on a unit sold basis (bottles). Therefore 2.9% to strong beer, 15.6% to wine, 81.5% to spirits.				
- Labor	\$22,821,500	\$661,824	\$3,560,154	\$18,599,522
- Personal service contract, goods and services, travel & other	1,639,912	47,557	255,826	1,336,529
- Overhead (from G.A. Division)	<u>2,925,554</u>	<u>84,841</u>	<u>456,386</u>	<u>2,384,327</u>
(b) Allocate certain "M" Div. costs on a space used basis (case inventory). Therefore, 4.4% to strong beer, 30% to wine, 65.6% to spirits.				
- Utilities, rental, leases, maintenance, depreciation	<u>5,609,527</u>	246,819	1,682,858	3,679,850
	<u>\$32,996,493</u>			